INDOPREMIER

Astra International

HOLD

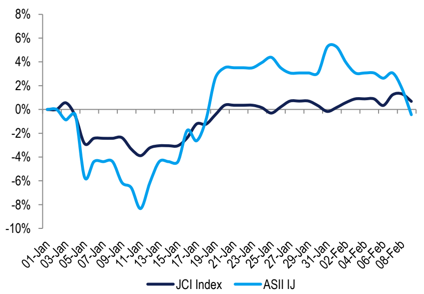
Company Initiation | Automotive | ASII IJ | 10 February 2023

Stock Data

Target price	**Rp5,900**
Prior TP	*Rp5,900*
Current price	Rp5,675
Upside/downside	*+4%*
Shares outstanding (mn)	40,484
Market cap (Rp bn)	229,744
Free float	47%
Avg. 6m daily T/O (Rp bn)	290

Price Performance

	3M	6M	12M
Absolute	-13.4%	-17.2%	2.3%
Relative to JCI	-10.9%	-14.5%	1.3%
52w low/high (Rp)			5,225 – 7,575



Major Shareholders

Jardine Cycle & Carriage Ltd	50.1%

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Optically attractive valuation but lacking catalysts; initiate with Hold

- The lack of near-term catalysts is a concern. This year, we expect: 1) industry 4W sales volume to decline by 4% yoy; 2) ASII's 4W market share to deteriorate to 53.9%; and 3) commodity prices to normalize.
- At 8x FY23F P/E, valuation looks optically attractive, but we believe it is unlikely to return to historical levels, given: 1) limited 4W/2W market share upside; 2) structurally lower ROE; and 3) heightened flow risks.
- The stock looks fully valued. Reinitiate with HOLD and TP of Rp5,900.

Lacking near-term catalysts

This year, we expect: 1) industry 4W sales volume to decline by 4% yoy due to elevated macro uncertainties and a high base effect; 2) ASII's 4W market share to drop to 53.9% (from 54.8% in FY22) given brewing competition; and 3) net margin to contract (-37-81bps in FY23-24F) amid a normalization in commodity prices. Considering the lack of positive near-term catalysts, we believe that ASII's share price is unlikely to outperform the JCI this year.

Commodity prices may drag down overall profitability

Amid a fading commodity boom (thermal/coking coal/CPO prices to fall by 33%/27%/40% yoy), we expect UNTR/AALI to see their net margins contract by 210/430bps in FY23F. That said, the impact should be partly offset by better margins in the 4W segment, where export-driven utilization improvements should translate into healthier inventory levels and less discounting. Still, we expect overall FY23F net margin to decline by 81bps.

Valuation seems unlikely to return to historical levels

ASII's valuation has been de-rating since 2014, from 21x P/E in 2014 to 8x FY23F P/E currently, likely due to concerns over: 1) 4W margins deterioration (due to distribution restructuring and competition); and 2) diversification (e.g., acquisitions of Trans-Java toll roads). Although ASII's current valuation looks attractive at face value (-2SD from its 10-yr mean and a 43% discount to the JCI vs. average 10yr discount of 20%), we believe valuation is unlikely to re-rate back to historical levels, given: 1) limited 4W/2W market share upside; 2) structurally lower ROE; and 3) heightened flow risks.

Reinitiate coverage on ASII with a HOLD rating and TP of Rp5,900

Despite the seemingly attractive valuation, we believe that the stock is fully valued, as: 1) the lack of positive near-term catalysts means the share price is unlikely to outperform the JCI this year; and 2) valuation seems unlikely to return to historical levels. We reinitiate with a HOLD recommendation and SOTP-based TP of Rp5,900/share (implying 9x FY23F P/E). Upside/downside risks: 1) higher/lower-than-expected 4W/2W volume growth; and 2) higher/lower-than-expected commodity prices.

Financial Summary (Rp bn)	2020A	2021A	2022F	2023F	2024F
Revenue	175,046	233,485	295,008	290,205	299,899
Operating profit	13,090	25,533	40,716	37,049	35,447
Net profit	16,164	20,196	30,425	27,587	27,410
EPS growth	-25.5%	24.9%	50.7%	-9.3%	-0.6%
ROE	5.4%	9.8%	13.3%	11.1%	10.3%
PER (x)	14.2	11.4	7.6	8.3	8.4
EV/EBITDA (x)	9.3	6.0	4.5	4.8	4.8
Dividend yield	3.2%	2.3%	3.5%	5.3%	4.8%
IPS vs. consensus			103%	97%	92%

Source: Company, Indo Premier *price closing as of: 9 February 2023*

Lacking positive catalysts

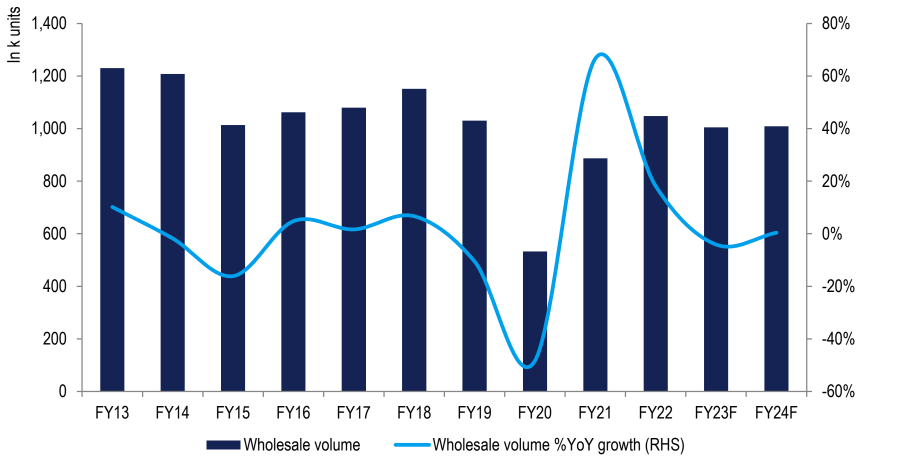
ASII is currently trading at 8x FY23F P/E (-2SD from its 10-yr mean), which represents a 43% discount to the JCI (vs. average discount of 20% over the past 10 years). That said, we believe that the stock looks fully valued, as: 1) the lack of positive near-term catalysts (amid a likely decline in 4W volume/market share and a fading commodity boom) means the share price is unlikely to outperform the JCI within our investment horizon; and 2) valuation seems unlikely to return to historical levels, given limited 4W/2W market share upside, structurally lower ROE, and heightened flow risks. Reinitiate coverage on ASII with a HOLD rating and TP of Rp5,900.

Share price outperformance seems unlikely, given lack of positive near-term catalysts

This year, we expect: 1) industry 4W sales volume to decline by 4% yoy; 2) ASII's 4W market share to deteriorate to 53.9% (from 54.8% in FY22); and 3) commodity prices to normalize. Given the lack of positive near-term catalysts, we believe that ASII's share price is unlikely to outperform the JCI this year.

First, we expect industry 4W sales volume to decline by 4% yoy this year (vs. +18% yoy in FY22). Our non-consensus view is largely premised on the cyclical nature of the 4W industry. 4W vehicles are big-ticket purchases that are easily deferrable, meaning the industry is reflective of macro conditions. With global macro uncertainties on the rise, spending appetite on big-ticket items looks unlikely to strengthen compared to last year. In addition, a high base effect will come into play, as 4W sales last year were boosted by higher commodity prices (which supported demand in ex-Java), the tail-end of pent-up demand, a flurry of new product launches in the key LMPV and LSUV segments, and luxury tax/PPnBM incentives (which lasted until 3Q22).

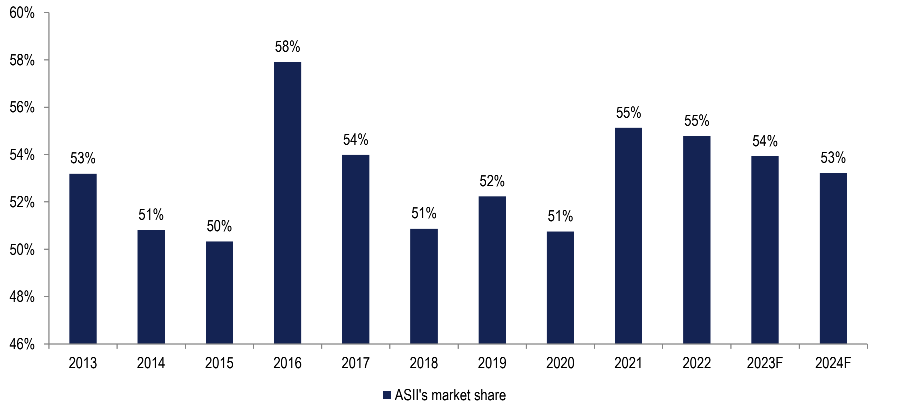
Fig. 1: Industry 4W sales volume to decline by 4% yoy this year



Source: Gaikindo, Indo Premier

Second, we forecast ASII's market share to deteriorate from 54.8% in FY22 to 53.9% in FY23F, mainly due to intensifying competition within the LMPV and LSUV segments. Despite ample new launches from all 4W players from 4Q21 to 4Q22, we noted a lack of impactful launches from competitors. Toyota/Daihatsu (the LMPV market share leader) launched the all-new Avanza/Xenia in 4Q21, while Mitsubishi, a key rival, only launched the facelifted version of the Xpander and Xpander Cross. Honda launched the WR-V in November FY22, but missed the luxury tax/PPnBM discount window (which ended in 3Q22), and faced a production bottleneck due to semiconductor supply issues. Meanwhile, newcomers like Wuling and Hyundai have yet to gain market share traction, as evidenced by faltering sales of Hyundai's Creta (336 units in Dec. vs. 1.7k in Sep.) and Stargazer (1.5k units in Dec. vs. 4k in Aug.) toward end-4Q22.

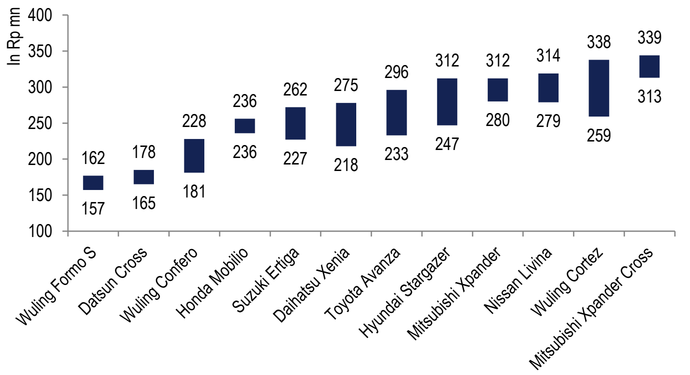
Fig. 2: ASII's market share to deteriorate from 54.8% in FY22 to 53.9% in FY23F



Source: Gaikindo, Indo Premier

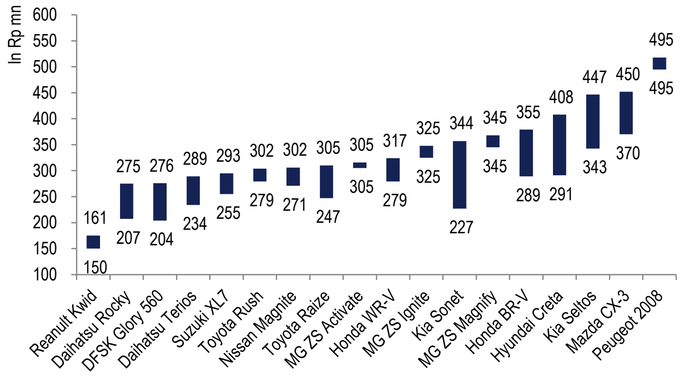
However, we believe competition could heat up this year, as rivals are poised to launch a number of key products: 1) Mitsubishi may launch the XFC (its first LSUV in Indonesia) and the Xpander Hybrid (which would be the country's second hybrid LMPV); 2) Honda is set to launch the manual variant of the WR-V (which is slated to be about Rp20mn cheaper than the auto-only variants); 3) Wuling may launch the Alvez (its first LSUV in Indonesia) and the Victory (likely another LMPV model); and 4) Hyundai is likely to launch the Ioniq 6 (which has seen a positive reception in regional markets) and could potentially increase discounts for the Creta and Stargazer, given weakening sales momentum and inventory build-up in recent months. While ASII could potentially see market share upside from the release of Raize/Rocky hybrid models and the all-new Agya/Ayla, it should be noted these model releases have yet to be confirmed.

Fig. 3: LMPV price map



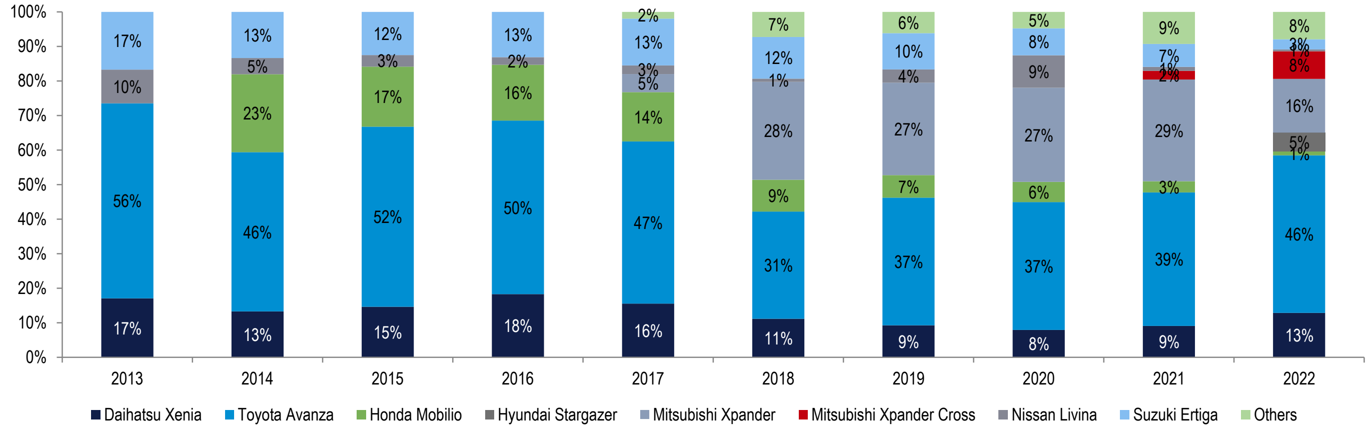
Source: Various news, Company, Indo Premier

Fig. 4: LSUV price map



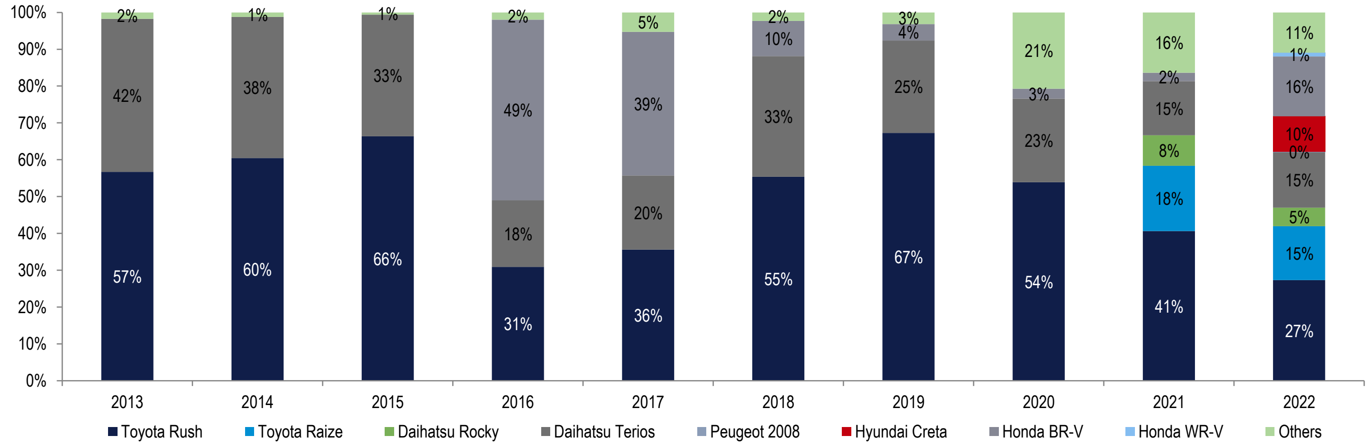
Source: Various news, Company, Indo Premier

Fig. 5: LMPV market share breakdown



Source: Gaikindo, Indo Premier

Fig. 6: LSUV market share breakdown



Source: Gaikindo, Indo Premier

Fig. 7: New cars that are rumoured to be launch this year

Manufacturer	Model	Generation	Type	Powertrain	Estimated launch date	Estimated OTR price range (Rp mn)
Chery	Omoda 5	Brand new	Crossover	Petrol	Feb-23	
Daihatsu	Ayla Gen-2	All new	LCGC	Petrol/PHEV	Mar-23	200-250
Daihatsu	D66B	Brand new	LSUV	Petrol		200-300
Daihatsu	Rocky Hybrid	All new	LSUV	PHEV		300-350
DFSK	Gelora E CKD	All new	Commercial	BEV	Feb-23	350
DFSK	Mini EV	Brand new	Hatchback	BEV	2H23	220
Honda	Accord Hybrid	All new	Sedan	HEV		
Honda	Amaze	Brand new	LCGC	Petrol		150
Honda	CR-V Hybrid	All new	SUV	HEV		
Honda	WR-V Manual Variant	New variant	LSUV	Petrol		250
Hyundai	Ioniq 6	Brand new	Sedan	BEV		600-800
Mazda	CX-60 Hybrid	Brand new	SUV	PHEV		600
Mitsubishi	Minicab MiEV	Brand new	Commercial	BEV		
Mitsubishi	XFC	Brand new	LSUV	Petrol	2H23	200-400
Mitsubishi	Xpander Hybrid	All new	LMPV	HEV and PHEV	2H23	300-400
Morris Garage	VS HEV	Brand new	LSUV	HEV	Aug-23	400
Nissan	Serena C28	All new	MPV	Petrol and HEV		550-600
Suzuki	Celerio	Brand new	LCGC	Petrol		130-200
Suzuki	Grand Vitara	All new	LSUV	Petrol	Feb-23	300-400
Suzuki	Jimny 5-door	All new	SUV	Petrol		500-600
Suzuki	XL-7 Hybrid	Brand new	LSUV	HEV		300-350
Toyota	Agya Gen-2	All new	LCGC	Petrol/PHEV	Mar-23	200-250
Toyota	Raize Hybrid	All new	LSUV	PHEV		350-400
Toyota	Yaris Cross	Brand new	Crossover	Petrol	Jun-23	300-400
Wuling	Alvez	Brand new	LSUV	Petrol	Feb-23	200-250
Wuling	Victory	Brand new	LMPV	Petrol		260-300

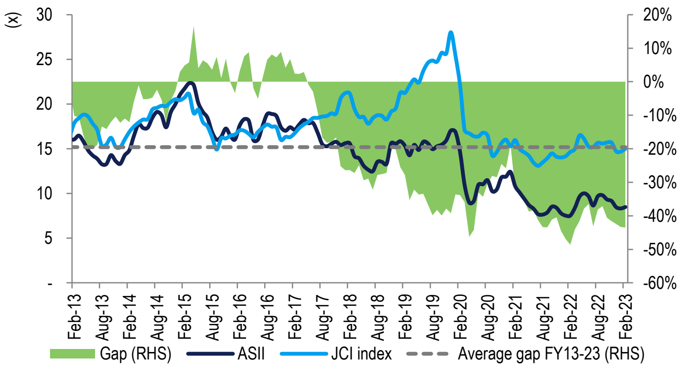
Source: Various news, Indo Premier

Third, United Tractors (UNTR) faces significant headwinds from the coal sector's weakening outlook coupled with an unfavourable comparison (earnings coming off a record-high cyclical base). Astra Agro Lestari (AALI) is in a similar situation, given the likely fall in CPO prices and its mature plants. We expect UNTR/AALI to see their net margins contract by 210/430bps in FY23F. That said, we believe the impact will be partly offset by better margins in the 4W segment, where export-driven utilization improvements should translate into healthier inventory levels and less discounting. Still, we expect ASII's overall net margin to decline by 81bps for the year.

ASII was previously considered an Indonesian proxy…

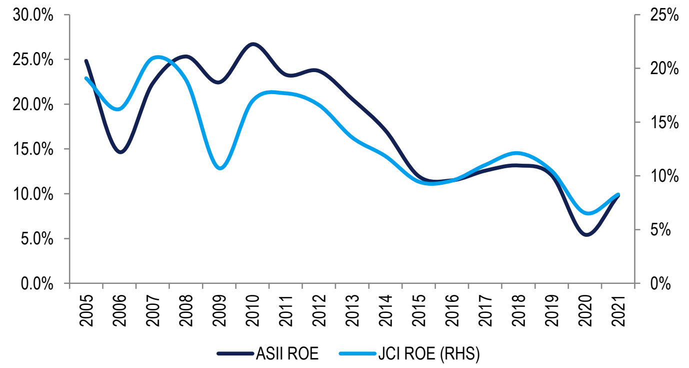
Historically, ASII was often dubbed an Indonesian proxy due to its: 1) exposure to various businesses across key sectors that broadly reflect Indonesia's consumption story (automotive, commodities, etc.); 2) solid fundamentals and returns (as evidenced by above-average ROE delivery) and good corporate governance track record; and 3) ample market liquidity relative to other Indonesian stocks.

Fig. 8: ASII's P/E is currently at a 43% discount to the JCI



Source: Company, Bloomberg, Indo Premier

Fig. 9: ASII's ROE gap with JCI has been narrowing in recent years



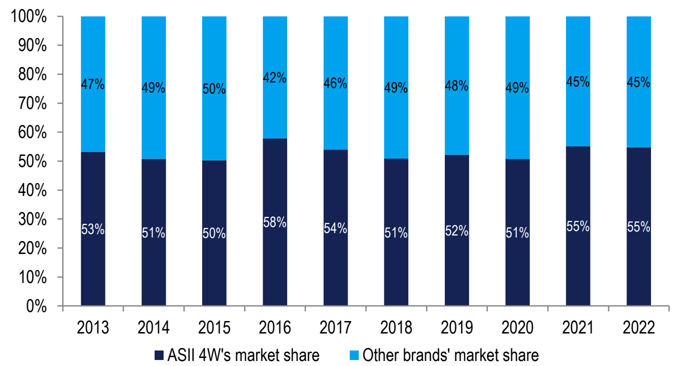
Source: Company, Bloomberg, Indo Premier

…but has fallen since 2014, and valuation seems unlikely to return to historical levels

However, ASII's valuation has been de-rating since 2014, from 21x P/E in 2014 to 8x FY23F P/E currently. We largely attribute the stock's decline to concerns over: 1) margin squeeze in the 4W segment (due to distribution restructuring and intensifying competition); and 2) potentially dilutive capital management strategy (such as the acquisitions of Trans-Java toll roads). Although the current valuation looks attractive at face value (-2SD from its 10-yr mean and a 43% discount to the JCI vs. average 10yr discount of 20%), <u>we believe that ASII's valuation seems unlikely to re-rate back to historical levels, given: 1) limited 4W/2W market share upside; 2) structurally lower ROE; and 3) heightened flow risks.</u>

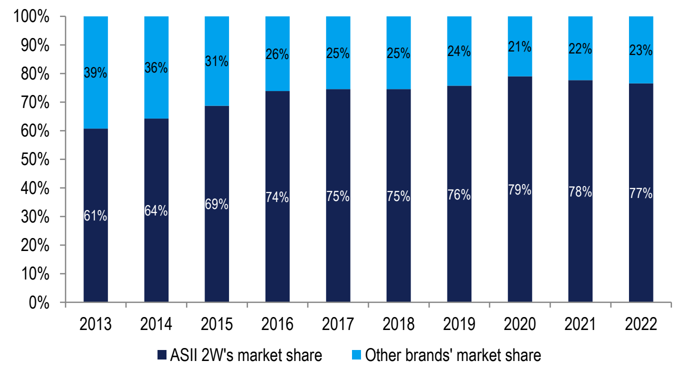
First, ASII's 4W/2W market shares stood at 54.8%/76.5% in FY22 (vs. 55.1%/77.7% in FY21). Despite the firm's hard-to-replicate competitive advantages (including distribution and after-sales services) and track record of launching well-received products, <u>we see limited market share upside given its already-high shares of the 4W/2W markets and the current competitive landscape</u>.

Fig. 10: ASII's high 4W…



Source: Gaikindo, Indo Premier

Fig. 11: …and 2W market share imply limited upside



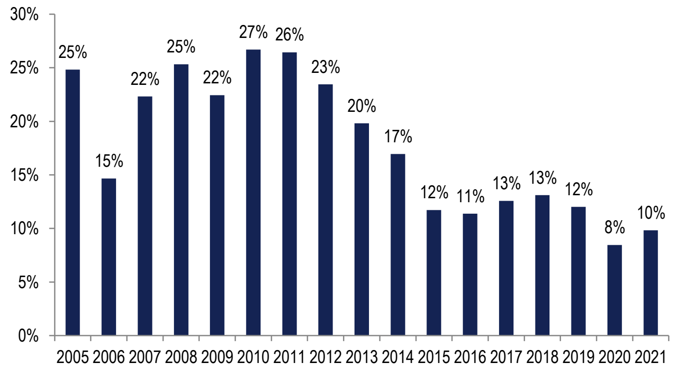
Source: Company, Indo Premier

In the 4W space, we note: 1) tighter LMPV competition (as all key players now have skin in the game, unlike before 2012); and 2) a structural transition from LMPV to LSUV. We believe competition could intensify in the LSUV segment due to the continuous rollout of new models by competitors (Mitsubishi XFC, Wuling Alvez, Honda WR-V, Hyundai Creta, and Suzuki

XL7 and Grand Vitara) and the more fragmented nature of the LSUV market. In the 2W space, although we foresee only limited competitive pressure from Yamaha and E2W micro-brands (like Volta and Gesits), ASII's 2W market share of 76.5% in FY22 implies limited upside. We forecast 4W/2W markets shares to decline to 53.9%/75.0% in FY23F, and hover at around 50-51%/72-73% in the long run.

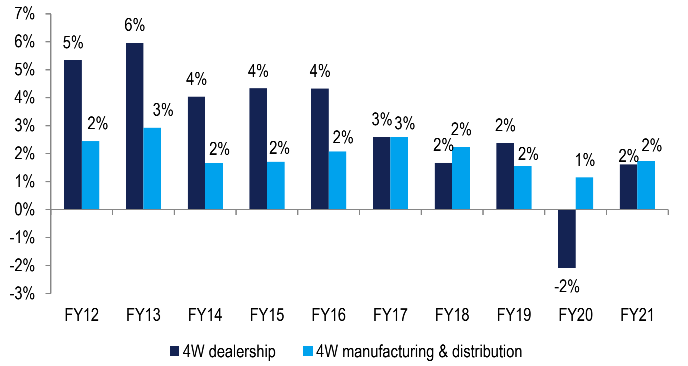
Second, we believe the company is facing structurally lower ROE, largely due to 4W distribution restructuring, intensifying 4W competition, and dilutive M&A activities. Indeed, ROE declined from 23.3% in 2011 to 12.1% in FY19 (pre-COVID). 4W margins declined following distribution channel restructuring in 2015, as the company's Auto2000 had previously taken a c.1.5-2.0% fee for car distribution to dealerships. We do not see 4W distribution margin (currently c.2%) returning to the previous level of >4%.

Fig. 12: ASII is facing structurally lower ROE



Source: Company, Indo Premier

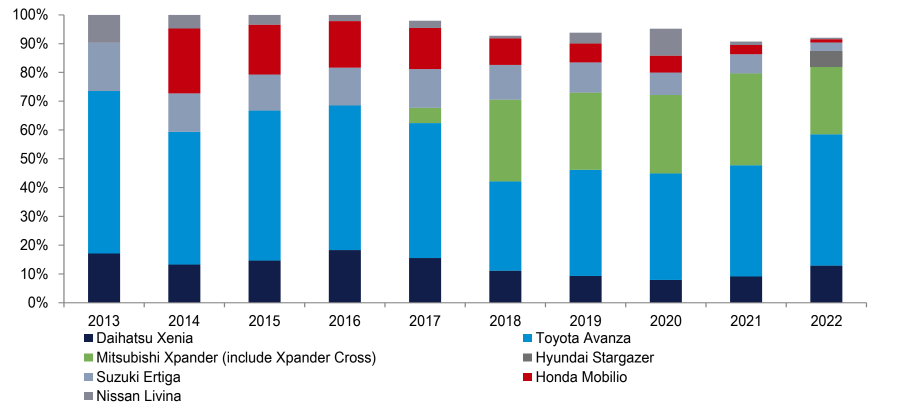
Fig. 13: 4W margins declined post-distribution restructuring in 2015



Source: Company, Indo Premier

The 4W market has also seen a structural increase in competition since 2014, as a growing number of automakers are turning their attention to the Indonesian market (arguably the largest 4W market in ASEAN). Indeed, in recent years, automakers have aggressively rolled out new models, set up local factories, and committed to improve after-sales services. Against this backdrop, models that once dominated the market have seen their market positions slip. The Avanza/Xenia, for instance, saw its share of the LMPV market drop from 89% in 2011 to 58% in FY22 (48% in FY21 before the release of the all-new Avanza/Xenia). With competition getting fiercer, a return to previous market share levels seems unlikely.

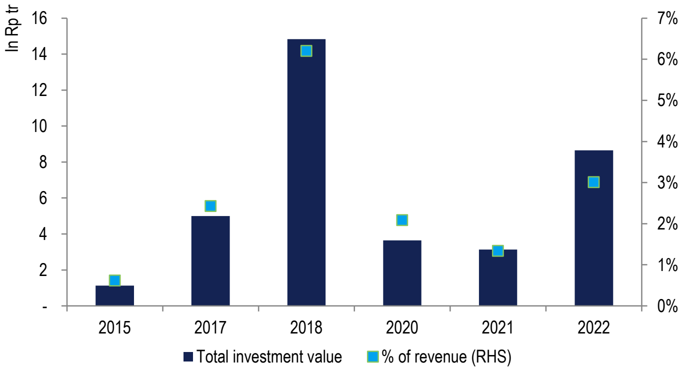
Fig. 14: Xpander swiftly gained market share in 2017 at the expense of Avanza/Xenia



Source: Gaikindo, Indo Premier

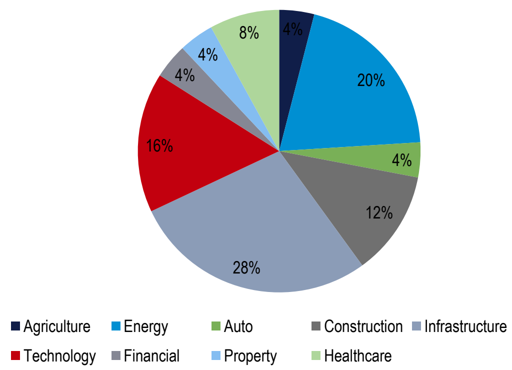
Furthermore, while ASII's diversification may potentially add synergy/value, we believe it is unlikely to become a meaningful share price catalyst, given that: 1) ASII is already one of Indonesia's largest companies in terms of market cap (about Rp237tr or c.4.7% of Indonesia's GDP); 2) the company's investment agenda is lacking clarity (with Rp36tr invested across 24 companies and nine sectors over the past seven years, based on our estimates); and 3) it has a track record of acquiring stakes/companies at premium valuations, which inadvertently leads to a poor return profile (partly evidenced by ASII's declining ROE trend). Notably, while the infrastructure, logistics, and property businesses accounted for 22.5% of ASII's annual capex spending in FY12-21 on average, the aggregate ROE of these businesses averaged 6.6% in FY12-19 (pre-COVID)—a subpar level considering the amount invested, and likely below the cost of capital. All in all, ROE seems unlikely to return to the >20% level, and we expect ROE to hover around 11-12% in the long run.

Fig. 15: In the past seven years, ASII invested Rp36tr…



Source: Various news, Company, Indo Premier

Fig. 16: …across 24 companies and nine sectors



Source: Various news, Company, Indo Premier

Third, we see heightened flow risks from an ESG perspective (c.30-35% of earnings are coal/CPO-related) and from a top-down index-weighting perspective (tech-related stocks emerging as another consumption proxy).

Reinitiate coverage with a HOLD rating and TP of Rp5,900

Despite the seemingly attractive valuation, we believe that the stock is fully valued, as: 1) the lack of positive near-term catalysts means its share price is unlikely to outperform the JCI this year; and 2) valuation seems unlikely to return to historical levels. We reinitiate with a HOLD recommendation and SOTP-based TP of Rp5,900/share (implying 9x FY23F P/E). Upside/downside risks: 1) higher/lower-than-expected 4W/2W volume growth; 2) higher/lower-than-expected commodity prices; and 3) higher/lower synergies from acquisitions.

Segmental summary

Automotive and financials – 49%/51% of revenue/net profit

We expect 4W revenue to decline by 4.7% yoy this year, as a function of lower industry's sales volume (-4% yoy) and market share (from 54.8% in FY22 to 53.9% in FY23F). Our non-consensus view is largely based on the premise that 4W vehicles are big-ticket purchases that are easily deferrable, and hence, the industry is cyclical and reflective of macro conditions. We believe: 1) big ticket spending appetite looks unlikely to strengthen compared to last year due to rising global macro uncertainties; and 2) 4W demand in FY22 was a high base as it was boosted by higher commodity prices (which supported demand in ex-Java), the tail-end of pent-up demand, a flurry of new product launches in the key LMPV and LSUV segments, and luxury tax/PPnBM incentives (which lasted until 3Q22).

4W net margin, however, should improve in FY23F, on the back of better industry's utilization (supported by export), which we believe should translate into healthier inventory levels and less discounting.

Meanwhile, we see limited growth potential for ASII's 2W business, given the already-high 2W penetration and ASII's high market share (76.5%). Product innovation (like electric 2W/E2W) is a key upside risk for volume growth. We project its fincos' earning assets to grow alongside 4W/2W volumes. Even though competition with banks remains tight, we highlight a relatively healthy dynamic (i.e. no aggressive rates offerings).

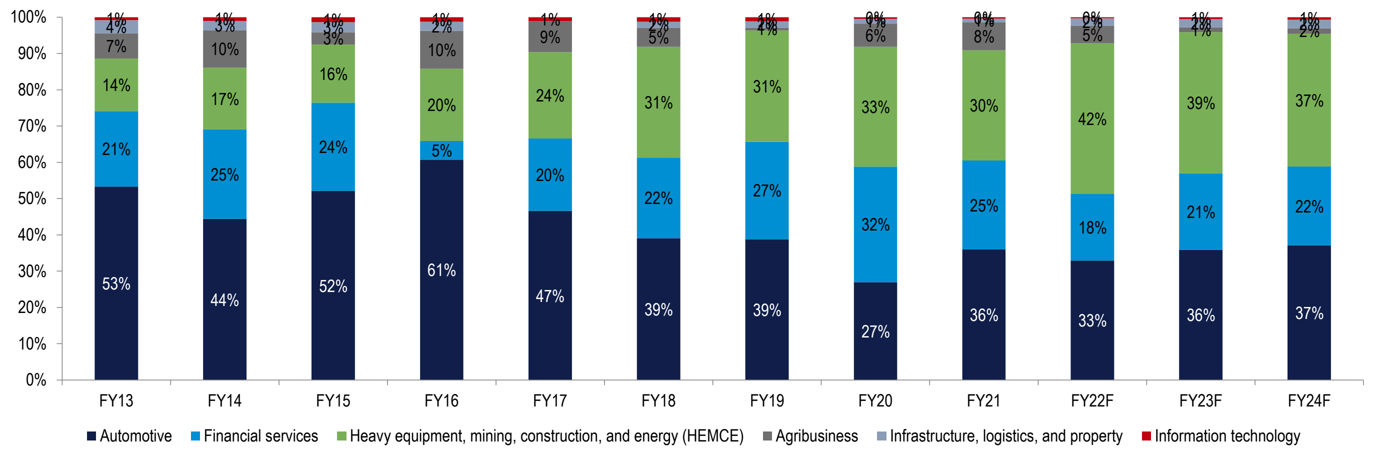
United Tractors (UNTR) – 40%/42% of revenue/net profit

We forecast flat yoy Komatsu sales this year, reflecting potential resilient demand from the mining sector amid our positive view on long-term coal price and easing supply bottleneck from Komatsu. Coal production/OB removal should grow by 5% yoy, as both are historically resilient against coal price downcycle. We expect Pama's fee to be maintained at US$2.8/bcm, as its fee structure only sees downside if coal price falls below US$120/t. We forecast UNTR to see revenue and earnings growth of c.2%/-10% in FY23F.

Astra Agro Lestari (AALI) – 8%/5% of revenue/net profit

For FY23F, we expect average CPO prices to trend lower at around RM3,100/MT (-40% yoy), as higher global supply from 2Q23 onwards could put pressure on prices in 2H23. We forecast AALI to see revenue and earnings contraction by c.39%/74% in FY23F, amidst lower production due to mature plants (-5% yoy) and lower CPO prices (-40% yoy).

Fig. 17: Net profit breakdown based on segments



Source: Company, Indo Premier

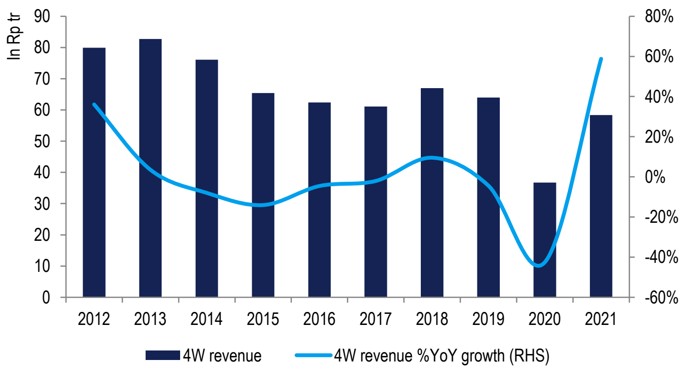
4-Wheelers

Overview

We expect 4W revenue to decline by 4.7% yoy this year, as a function of lower industry's sales volume (-4% yoy; due to higher uncertainties and high-base effect) and market share (from 54.8% in FY22 to 53.9% in FY23F, due to competition). 4W net margin, however, should improve in FY23F, on the back of better industry's utilization (supported by export), which we believe should translate into healthier inventory levels and less discounting.

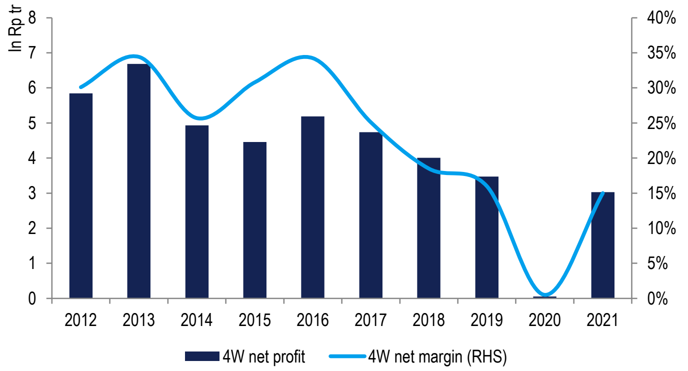
In the longer run, we see limited market share upside for ASII, given its already-high shares of the 4W markets and the current competitive landscape. Considering the upstream distribution restructuring that took place in 2015, we also believe that 4W distribution margin seems unlikely to return to the previous level of >4% (vs. currently c.2%). Hence, we do not expect auto-only valuation to return to historical levels.

Fig. 18: 4W revenue trend



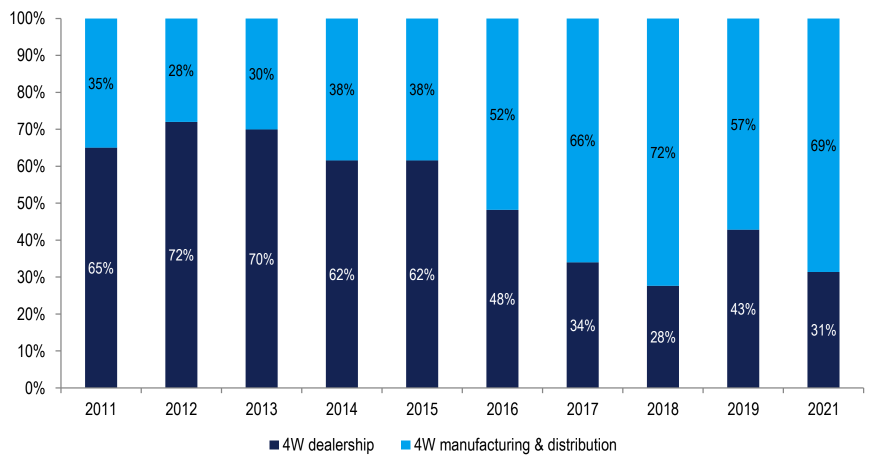
Source: Company, Indo Premier

Fig. 19: 4W net profit trend



Source: Company, Indo Premier

Fig. 20: 4W net profit breakdown

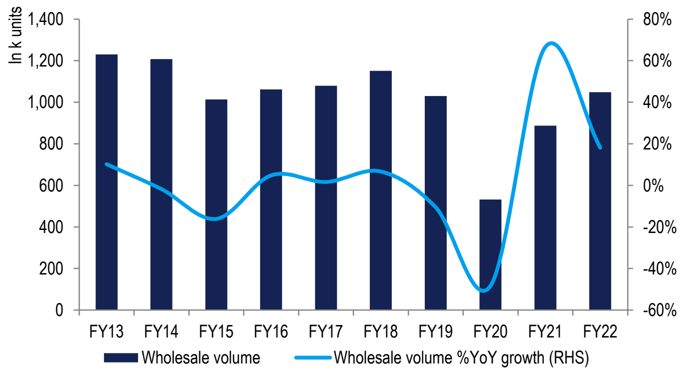


Source: Company, Indo Premier
Note: 2020 (first year of COVID-19) is excluded due to negative numbers

FY22 4W sales recap

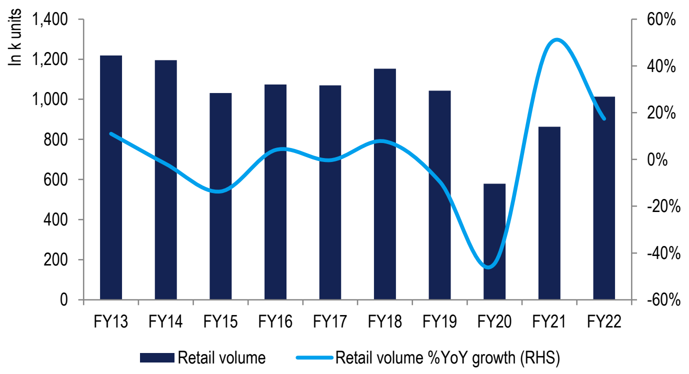
In FY22, the 4W industry's wholesale volume grew 18.1% yoy to 1.05mn units, better than the FY19 figure of 1.03mn units, but still below the 1.15mn units booked in FY18. ASII's 4W wholesales grew 18% yoy in FY22, which implies a market share of 54.8%—declining only slightly (from 55.1% in FY21) despite heightened competitive pressure from Hyundai. Meanwhile, the 4W industry's retail sales grew to 1.01mn units (+17.4% yoy) in FY22.

Fig. 21: 4W industry's wholesale volume grew 18.1% yoy in FY22



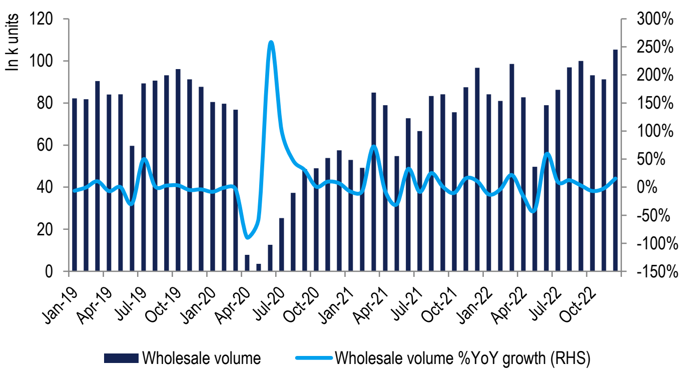
Source: Gaikindo, Indo Premier

Fig. 22: 4W industry's retail sales grew 17.4% yoy in FY22



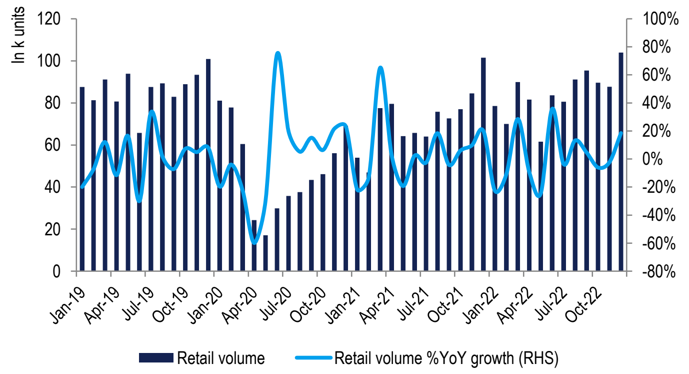
Source: Gaikindo, Indo Premier

Fig. 23: Monthly 4W wholesale volume trend



Source: Gaikindo, Indo Premier

Fig. 24: Monthly 4W retail volume trend



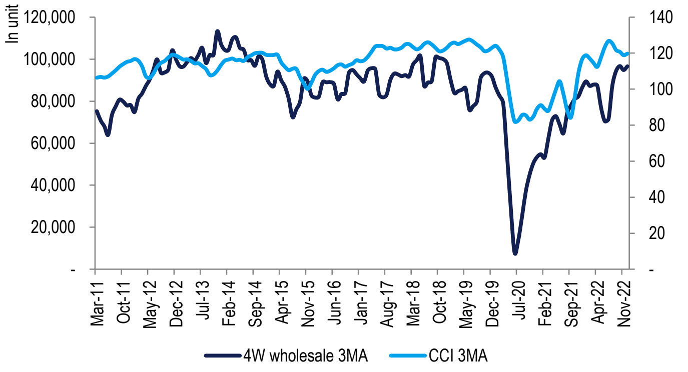
Source: Gaikindo, Indo Premier

4W sales volume is likely to decline by 4% yoy in FY23F

Given that 4W vehicles are big-ticket purchases that are easily deferrable, the industry is cyclical and reflective of macro conditions, in our view. Indeed, buyers must be willing to take on debt (c.70% of 4W buyers in Indonesia use auto loan), meaning that confidence in the overall economy (including the outlook on GDP, inflation, and the Rupiah), income/financing security (including the employment/wage growth outlook, access to financing, interest rates, and financing-to-value/FTV requirements), and maintenance costs (including fuel prices) are critical factors in sustaining demand. Indeed, we note a strong correlation between 4W wholesale and retail sales with the consumer confidence index.

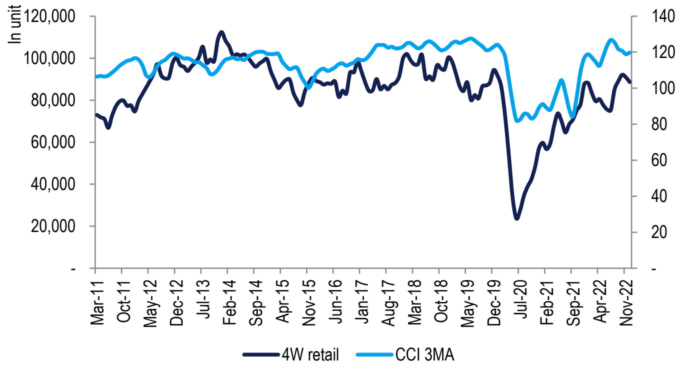
While we remain generally upbeat on Indonesia's economy (please see: link to report), we expect the 4W industry's wholesale volume to decline to 1.01mn units (-4% yoy) in FY23F, as a result of macro uncertainties and a high base. We believe: 1) big ticket spending appetite looks unlikely to strengthen compared to last year due to rising global macro uncertainties; and 2) 4W demand in FY22 was a high base as it was boosted by higher commodity prices (which supported demand in ex-Java), the tail-end of pent-up demand, a flurry of new product launches in the key LMPV and LSUV segments, and luxury tax/PPnBM incentives (which lasted until 3Q22).

Fig. 25: 4W wholesale 3MA vs. CCI 3MA



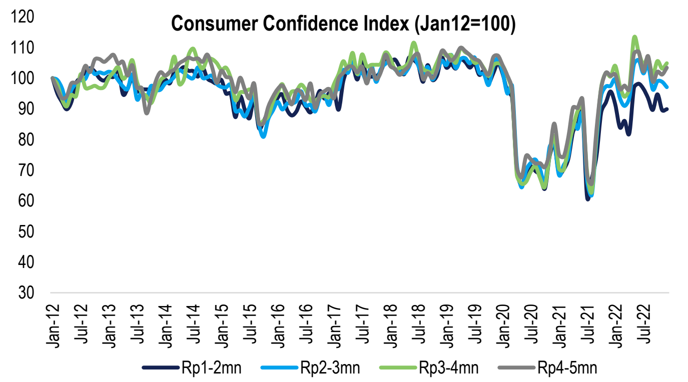
Source: Gaikindo, CEIC, Indo Premier

Fig. 26: 4W retail 3MA vs. CCI 3MA



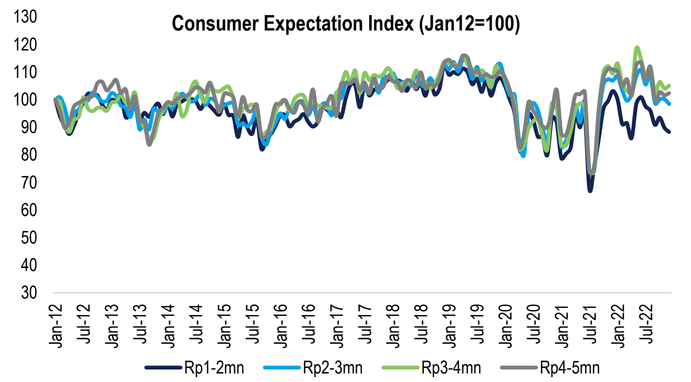
Source: Gaikindo, CEIC, Indo Premier

Fig. 27: While still optimistic, consumer confidence has noticeably declined since 2H22



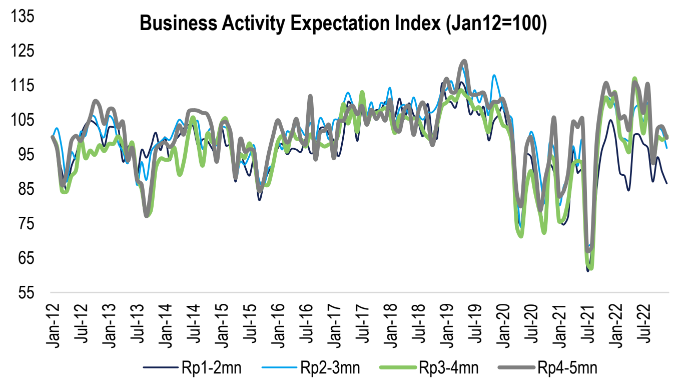
Source: CEIC, Indo Premier

Fig. 28: Consumer expectation index



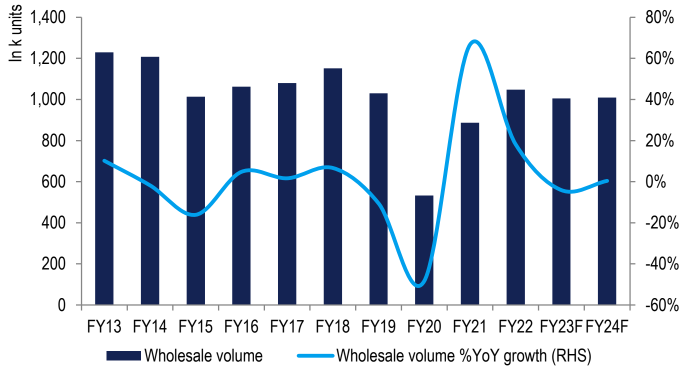
Source: CEIC, Indo Premier

Fig. 29: Business activity expectation index



Source: CEIC, Indo Premier

Fig. 30: Annual wholesale volume and y-y growth in the past 10 years and FY23-24F



Source: Gaikindo, Indo Premier

ASII's market share to slip to 53.9% in FY23F given brewing competition within the LMPV and LSUV segment

We forecast ASII's market share to deteriorate from 54.8% in FY22 to 53.9% in FY23F, mainly due to intensifying competition within the LMPV and LSUV segments. Despite ample new launches from all 4W players from 4Q21 to 4Q22, we noted a lack of impactful launches from competitors. Toyota/Daihatsu (the LMPV market share leader) launched the all-new Avanza/Xenia in 4Q21, while Mitsubishi, a key rival, only launched the facelifted version of the Xpander and Xpander Cross. Honda launched the WR-V in November FY22, but missed the luxury tax/PPnBM discount window (which ended in 3Q22), and faced a production bottleneck due to semiconductor supply issues. Meanwhile, newcomers like Wuling and Hyundai have yet to gain market share traction, as evidenced by faltering sales of Hyundai's Creta (336 units in Dec. vs. 1.7k in Sep.) and Stargazer (1.5k units in Dec. vs. 4k in Aug.) toward end-4Q22.

However, we believe competition could heat up this year, as rivals are poised to launch a number of key products: 1) Mitsubishi may launch the XFC (its first LSUV in Indonesia) and the Xpander Hybrid (which would be the country's second hybrid LMPV); 2) Honda is set to launch the manual variant of the WR-V (which is slated to be about Rp20mn cheaper than the auto-only variants); 3) Wuling may launch the Alvez (its first LSUV in Indonesia) and the Victory (likely another LMPV model); and 4) Hyundai is likely to launch the Ioniq 6 (which has seen a positive reception in regional markets) and could potentially increase discounts for the Creta and Stargazer, given weakening sales momentum and inventory build-up in recent months. While ASII could potentially see market share upside from the release of Raize/Rocky hybrid models and the all-new Agya/Ayla, it should be noted these model releases have yet to be confirmed.

We also see limited 4W market share upside for ASII in the long run

ASII's 4W market shares stood at 54.8% in FY22. Despite the firm's hard-to-replicate competitive advantages (including distribution and after-sales services) and track record of launching well-received products, we see limited market share upside given its already-high shares of the 4W market and the current competitive landscape. In the 4W space, we note: 1) tighter LMPV competition (as all key players now have skin in the game, unlike before 2012); and 2) a structural transition from LMPV to LSUV. We forecast 4W markets shares to decline to 53.9% in FY23F and hover at around 50-51% in the long run.

First, unlike in pre-2012, Avanza/Xenia are no longer the only players in the LMPV segment. ASII's key competitors now have similar product offerings (Mitsubishi Xpander, Honda Mobilio, Hyundai Stargazer, Suzuki Ertiga, and Wuling Confero/Cortez). Although we still expect Avanza/Xenia to maintain dominance within this segment, we believe that the segment is already over-crowded and thus market share upside for ASII is limited in the long run, especially considering that the "pie" could get smaller, given the likely structural transition to LSUV. The Avanza/Xenia, for instance, saw its share of the LMPV market drop from 89% in 2011 to 58% in FY22 (48% in FY21 before the release of the all-new Avanza/Xenia).

Second, we expect to see a structural transition from LMPV to LSUV, in-line with the rising popularity of the SUV model worldwide. We believe competition could intensify in the LSUV segment due to the continuous rollout of new models by competitors (Mitsubishi XFC, Wuling Alvez, Honda WR-V, Hyundai Creta, and Suzuki XL7 and Grand Vitara) and the more fragmented nature of the LSUV market.

Fig. 31: New product launches in 4Q21-4Q22; we note limited major launches from competitors

Manufacturer	Model	Generation	Type	Powertrain	Launch date	OTR price range (Rp mn)
Honda	City	All new	Sedan	Petrol	Oct-21	355
Honda	Civic RS	All new	Sedan	Petrol	Oct-21	570
Isuzu	Traga Blind Van	Brand new	Commercial	Petrol	Oct-21	291
Peugeot	3008	Facelift	SUV	Petrol	Oct-21	590-720
Peugeot	5008	Facelift	SUV	Petrol	Oct-21	645-775
Daihatsu	Xenia	All new	LMPV	Petrol	Nov-21	190-240
Hyundai	Creta	Brand new	LSUV	Petrol	Nov-21	279-399
Isuzu	MU-X	Brand new	SUV	Petrol	Nov-21	560
Isuzu	D-Max	Brand new	Commercial	Diesel	Nov-21	364
Kia	Grand Carnival	All new	MPV	Petrol	Nov-21	886
Kia	Seltos GT Line	New variant	LSUV	Petrol	Nov-21	415
Kia	Seltos GCRDi Diesel	New variant	LSUV	Diesel	Nov-21	389
Mazda	CX-9 Kuro Edition	New variant	SUV	Petrol	Nov-21	890
Mitsubishi	Xpander	Facelift	LMPV	Petrol	Nov-21	249-300
Mitsubishi	Xpander Cross	Facelift	LMPV	Petrol	Nov-21	228-273
Suzuki	All New Ertiga FF	All new	LMPV	Petrol	Nov-21	258
Toyota	Avanza	All new	LMPV	Petrol	Nov-21	206-264
Toyota	Veloz	All new	LMPV	Petrol	Nov-21	251-292
Honda	CR-V Black Edition	New variant	SUV	Petrol	Dec-21	566
Jeep	Compass	All new	SUV	Petrol	Dec-21	699
Toyota	Fortuner 2.8 GR Sport	New variant	SUV	Petrol	Jan-22	522-685
Toyota	Land Cruiser 300	All new	SUV	Petrol	Jan-22	2300-2400
Toyota	Voxy with TSS	New variant	MPV	Petrol	Feb-22	558-561
Honda	HR-V	All new	SUV	Petrol	Mar-22	356-500
Morris Garage	5 GT	Brand new	Sedan	Petrol	Mar-22	340-400
Wuling	Cortez	Facelift	LMPV	Petrol	Mar-22	274-326
Honda	Brio RS Urbanite Edition	New variant	Hatchback	Petrol	Apr-22	226-236
Honda	City Hatchback RS with Honda Sensing	New variant	Hatchback	Petrol	Apr-22	362
Hyundai	Ioniq 5	Brand new	SUV	BEV	Apr-22	718-829
Mazda	CX-5	Facelift	SUV	Petrol	Apr-22	598-608
Toyota	Hiace	All new	Commercial	Diesel	Apr-22	539-622
Toyota	Dyna	All new	Commercial	Diesel	Apr-22	355-437
Subaru	Forester	All new	SUV	Petrol	May-22	580-660
Suzuki	All New Ertiga Hybrid	All new	LMPV	PHEV	Jun-22	225-292
Hyundai	Palisade	Facelift	SUV	Petrol	Jul-22	842-1110
Mazda	CX-8	Brand new	SUV	Petrol	Jul-22	796
Toyota	Calya	Facelift	LCGC	Petrol	Jul-22	162-181
Hyundai	Stargazer	Brand new	LMPV	Petrol	Aug-22	247-312
Kia	Carens 1.4/1.5	All new	MPV	Petrol	Aug-22	389-449
Kia	EV6	Brand new	Crossover	BEV	Aug-22	1299
Mitsubishi	Xpander Cross	Facelift	LMPV	Petrol	Aug-22	310-336
Nissan	Leaf	All new	Hatchback	BEV	Aug-22	728-730
Nissan	Kicks e-Power	All new	SUV	PHEV	Aug-22	483
Subaru	XV	Brand new	Crossover	Petrol	Aug-22	450-500
Subaru	BRZ	All new	Sedan	Petrol	Aug-22	825-850
Suzuki	S-Presso	Brand new	Crossover	Petrol	Aug-22	155-164
Suzuki	Baleno	Facelift	Hatchback	Petrol	Aug-22	263-275
Wuling	Air EV	Brand new	Hatchback	BEV	Aug-22	238-295
Jaguar	I-Pace	Brand new	SUV	BEV	Oct-22	2,907
Toyota	Vios	All new	Sedan	Petrol	Oct-22	315-368
Chery	Tiggo 7 Pro	Brand new	SUV	Petrol	Nov-22	369-434
Chery	Tiggo 8 Pro	Brand new	SUV	Petrol	Nov-22	519-549
Honda	WR-V	Brand new	LSUV	Petrol	Nov-22	272-310
Toyota	Bz4x	Brand new	Crossover	BEV	Nov-22	1,190
Toyota	Kijang Innova Zenix & Zenix Hybrid	All new	MPV	Petrol and PHEV	Nov-22	419-611
Wuling	Almaz Hybrid	All new	SUV	HEV	Nov-22	470
Citroen	C3	Brand new	LSUV	Petrol	Dec-22	225
Citroen	C5 Aircross	Brand new	SUV	Petrol	Dec-22	1,064
Citroen	E-C4	Brand new	Hatchback	BEV	Dec-22	1,196
Mercedes Benz	EQE	Brand new	Sedan	BEV	Dec-22	2,210
Mercedes Benz	EQS	Brand new	Sedan	BEV	Dec-22	2980-3410
Toyota	GR Supra	Brand new	Sedan	Petrol	Dec-22	2,118
Toyota	Hilux GR Sport	New variant	Commercial	Diesel	Dec-22	731

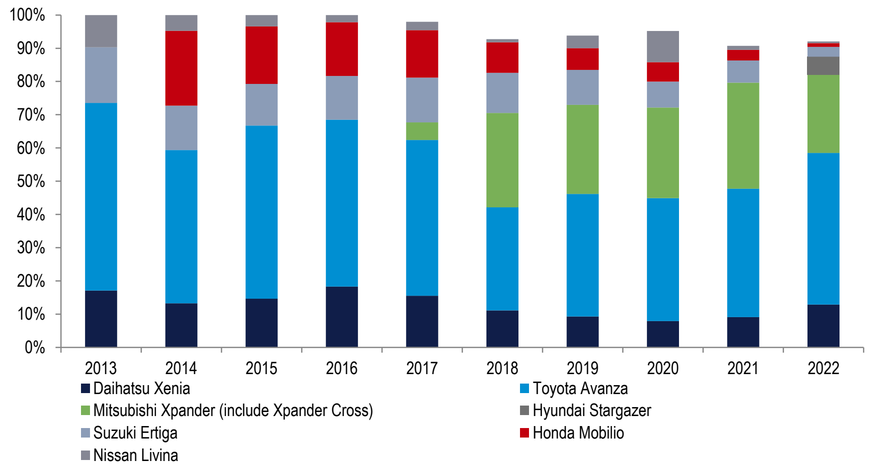
Source: Various news, Indo Premier

Fig. 32: New 4W product pipeline rumoured for this year; competition within the LMPV and LSUV segments should intensify

Manufacturer	Model	Generation	Type	Powertrain	Estimated launch date	Estimated OTR price range (Rp mn)
Chery	Omoda 5	Brand new	Crossover	Petrol	Feb-23	
Daihatsu	Ayla Gen-2	All new	LCGC	Petrol/PHEV	Mar-23	200-250
Daihatsu	D66B	Brand new	LSUV	Petrol		200-300
Daihatsu	Rocky Hybrid	All new	LSUV	PHEV		300-350
DFSK	Gelora E CKD	All new	Commercial	BEV	Feb-23	350
DFSK	Mini EV	Brand new	Hatchback	BEV	2H23	220
Honda	Accord Hybrid	All new	Sedan	HEV		
Honda	Amaze	Brand new	LCGC	Petrol		150
Honda	CR-V Hybrid	All new	SUV	HEV		
Honda	WR-V Manual Variant	New variant	LSUV	Petrol		250
Hyundai	Ioniq 6	Brand new	Sedan	BEV		600-800
Mazda	CX-60 Hybrid	Brand new	SUV	PHEV		600
Mitsubishi	Minicab MiEV	Brand new	Commercial	BEV		
Mitsubishi	XFC	Brand new	LSUV	Petrol	2H23	200-400
Mitsubishi	Xpander Hybrid	All new	LMPV	HEV and PHEV	2H23	300-400
Morris Garage	VS HEV	Brand new	LSUV	HEV	Aug-23	400
Nissan	Serena C28	All new	MPV	Petrol and HEV		550-600
Suzuki	Celerio	Brand new	LCGC	Petrol		130-200
Suzuki	Grand Vitara	All new	LSUV	Petrol	Feb-23	300-400
Suzuki	Jimny 5-door	All new	SUV	Petrol		500-600
Suzuki	XL-7 Hybrid	Brand new	LSUV	HEV		300-350
Toyota	Agya Gen-2	All new	LCGC	Petrol/PHEV	Mar-23	200-250
Toyota	Raize Hybrid	All new	LSUV	PHEV		350-400
Toyota	Yaris Cross	Brand new	Crossover	Petrol	Jun-23	300-400
Wuling	Alvez	Brand new	LSUV	Petrol	Feb-23	200-250
Wuling	Victory	Brand new	LMPV	Petrol		260-300

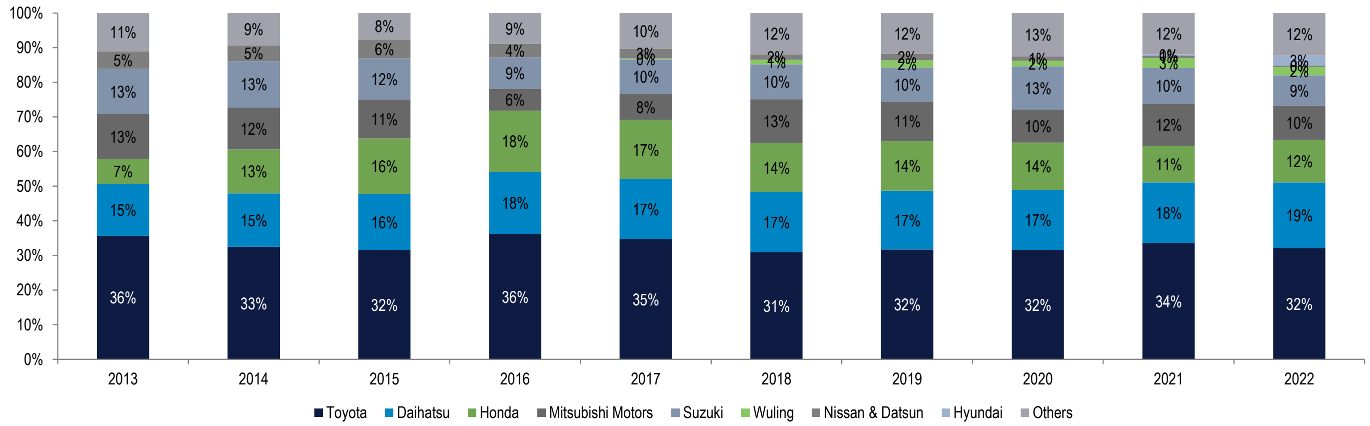
Source: Various news, Indo Premier

Fig. 33: Xpander swiftly gained market share in 2017 at the expense of Avanza/Xenia



Source: Gaikindo, Indo Premier

Fig. 34: Market share trend of 4W players in the past 10 years



Source: Gaikindo, Indo Premier

On a more positive note, being an EV latecomer should not materially impact ASII's near term market share

The Indonesian government is planning to provide incentives for EV/Electric Vehicle, but it has yet to decide between subsidies and a value-added tax/VAT exemption (PPN DTP). Based on our channel checks, the incentives are likely to be rolled out in 2Q23, despite facing some pushback.

Incentives in the form of subsidies would likely be more lucrative, with the government currently considering subsidies of Rp80mn per 4W BEV/Battery Electric Vehicle and Rp40mn per 4W hybrid (PHEV/Plug-in Hybrid Electric Vehicle and HEV/Hybrid Electric Vehicle). However, any form of subsidies would need to go through the House Representatives (DPR) for approval, which means political factors may play a role. On the other hand, the PPN DTP incentive would only need a Presidential Decree (Peraturan Presiden/PP). A PPN reduction for EVs, from 11% to 1%, is currently in the cards. Note that the government has given 0% luxury tax (PPnBM) (vs. a minimum of 15% PPnBM for conventional vehicles) and a lower vehicle tax for BEVs.

We expect the introduction of incentives to boost demand for EVs, and especially for BEVs, given better incentives for BEVs (vs. hybrids)—Rp80mn per vehicle (c.11/34% discount on Hyundai Ioniq 5/Wuling Air vs. 9% on Toyota Innova Zenix PHEV, based on the proposed figures) and exemption from the odd-even license plate regulation, among others. ASII currently does not have BEV models in its portfolio (except for the Toyota bZ4X and the Lexus UX300e, which cost north of Rp1bn), which is likely one of the reasons for the company's recent share price weakness. Investors appear to be worried about ASII's status as a latecomer in the rapidly growing BEV market, particularly with incentives looming.

Nevertheless, we expect the contribution of BEV sales to total industry sales to remain negligible in FY23F, given: 1) BEV models' elevated price points (double those of popular mass market cars, which are still in the sub-Rp300mn range); 2) limited models (arguably, the Hyundai Ioniq 5 and the Wuling Air are currently the only widely available models); 3) low production capacity (1.6k units p.a. for the Ioniq 5 and 10k p.a. for the Wuling Air), leading to order backlogs of about 15-18 months for the Ioniq 5 and 2-3 months for the Wuling Air; and 4) inadequate infrastructure (only 332 charging stations in Indonesia as of July 2022). Assuming no new launches and flat production capacity, we expect the share of BEV sales to remain negligible at 1.6% this year (vs. 0.8% in FY22).

Given the aforementioned factors, we think the overall impact on ASII will be limited, especially considering that ASII's all-new Kijang Innova Zenix (a PHEV, which could bridge the gap between conventional vehicles and BEVs) is also seeing a good reception from the market. Furthermore, we believe other affordable PHEV models could be in the pipeline (likely for the Raize and/or LCGC platform); ASII may release these models ahead of its expected launch of BEV models in FY24F (likely from Toyota's bZ lineup).

Fig. 35: The proposed EV incentives from govt

Incentive requirement			Candidates model	Impacted market (elasticity 3.48%)		Additional market (in unit)
				Without incentive	With incentive	
				Production plan (in unit)		
CKD BEV (LCEV)	>50 kWh	TKDN >40	Hyundai Ioniq 5	15,000	20,220	5,220
	>50 kWh	TKDN <40	No model			
	30-50 kWh	TKDN >40	No model			
	30-50 kWh	TKDN <40	No model			
	10-30 kWh	TKDN >40	Wuling Air EV	13,000	19,032	6,032
	10-30 kWh	TKDN <40	No model			
CKD Hybrid	PHEV (LCEV)		No model			
CKD Full Hybrid (LCEV)	<100 CO2 g/km		No model			
	100-125 CO2 g/km		Innova Hybrid	10,897	13,158	2,261
	>125-150 CO2 g/km		No model			
CKD Mild Hybrid (LCEV)	<100 CO2 g/km		No model			
	100-125 CO2 g/km		Ertiga Hybrid	3,000	3,855	855
	>125-150 CO2 g/km		No model			
Total				41,897	56,264	14,367

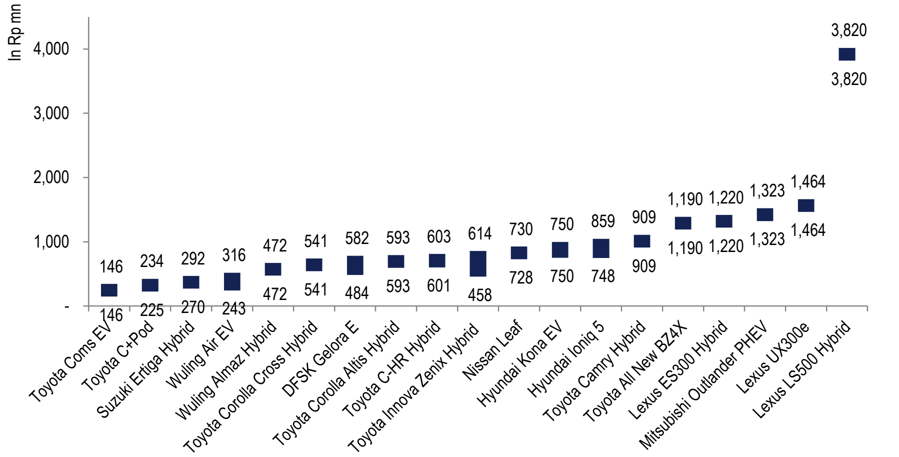
Source: Ministry of Industry, Indo Premier

Fig. 36: Current sales tax scheme (PPnBM) PP no.73/2019 based on gas emission

	Category		Fuel consumption		CO2 (g/km)	Machine capacity (cc)		
			Gasoline	Diesel		< 1.5	1.5 - 3.0	> 3.0
LCEV	Passenger car	<10 person	>15.5	>17.5	<150		15%	40%
			>11.5 - 15.5	>13 - 17.5	150-200		20%	50%
			11.5 -9.3	13.0 -10.5	200-250		25%	60%
			<9.3	<10.5	>250		40%	70%
		>10 person/ minibus	>11.6	>13.1	<200		15%	25%
			<11.6	<13.1	=>200		20%	30%
	Commercial	Double cabin	>15.5	>17.5	<150		10%	20%
			15.5 - 11.6	17.4-13.1	150-200		12%	25%
			<11.6	<13.1	>200		15%	30%
		Truck, bus, pick up	All type	All type	All type			0%
	Program	KBH2/ LCGC	20	21.8	120	3%		
		Hybrid/Mild Hybrid	>23	>26	<100		6%/8%	20%
			23 - 18.5	25.9 - 21	101 - 125		7%/10%	25%
			18.4 - 15.5	20.8 - 17.5	126 -150		8%/12%	30%
		Flexy Engine (E100/B100)	-	-	-			8%
		PHEV, EV/FC	All type	All type	All type			0%

Source: Ministry of Industry, Indo Premier

Fig. 37: Price points of BEV, PHEV and HEV models in Indonesia

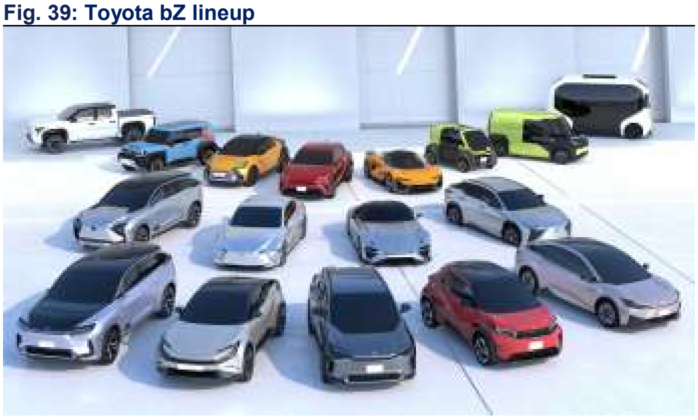


Source: Various news, Indo Premier

Fig. 38: Toyota bZ4x

Source: Toyota, Indo Premier

Fig. 39: Toyota bZ lineup



Source: Toyota, Indo Premier

4W profitability should also remain intact, though seems unlikely to return to pre-2015 level

In the 4W industry, the fundamental issues driving profitability are utilization rates and demand. In our view, discounts are merely a reflection of underlying problems in these areas. Better utilization rates should translate into healthier inventory levels and less discounting, which, in turn, should lead to better profitability.

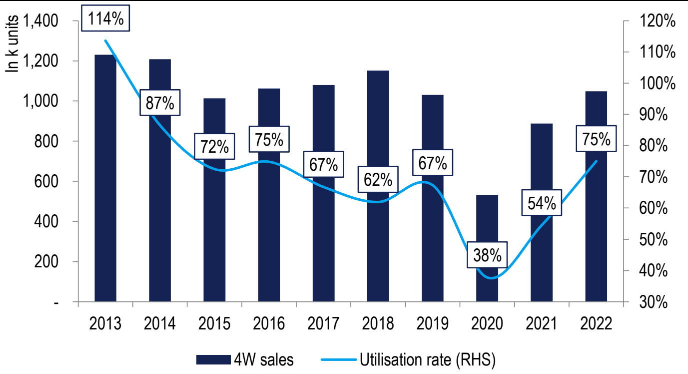
While we anticipate national 4W volume to decline 4% yoy in FY23F, we expect industry utilization to remain largely stable yoy (c.75% in FY22), supported by exports. Indeed, Indonesia's 4W CBU exports increased by 61% yoy and reached c.474k in FY22 (vs. 250-300k pre-COVID), with higher export sales posted by most brands (including Toyota, Mitsubishi, and Hyundai).

Despite an uncertain global macro backdrop, most brands are continuing to expand their export destinations; Toyota, for instance, has started 4W exports to Australia (CBU Fortuner), while Honda plans to start exporting WR-V to the Philippines this year. As such, we expect exports to hold steady or even improve this year. All in all, we expect the industry and ASII to maintain healthy utilization rates, allowing discounts to remain manageable and hence supporting margins.

Indeed, as of January FY23, we continue to see healthy inventory days and discounting at dealers' level. Our channel checks indicate c.1 month worth of inventory and a slightly higher discount, on mom basis, at about Rp30-35mn for Toyota Avanza (vs. Rp25-30mn in December FY22), but this is largely due to seasonality factors, as dealers typically attempt to deplete last year's production stocks from their inventories at the beginning of the year.

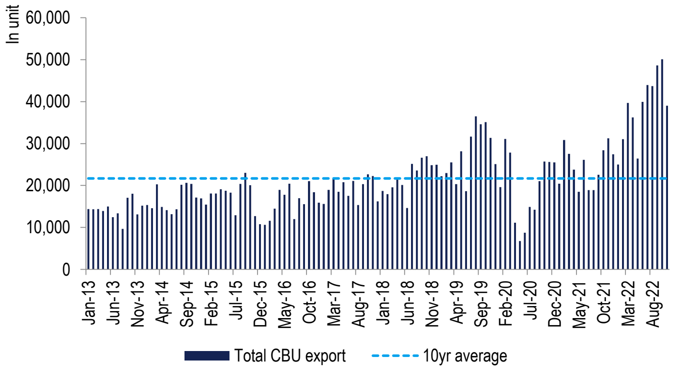
We observed similar trends for Mitsubishi Xpander (around Rp25mn vs. Rp20mn in Dec FY22) and Hyundai Stargazer (about Rp30mn vs. Rp20-25mn in Dec FY22). Overall, we believe that overall dealers' discounts are at healthy levels and we expect discounts to normalize towards end-1Q23, in-line with seasonality.

Fig. 40: Industry utilization continued to improve…



Source: Gaikindo, Indo Premier

Fig. 41: …partly driven by higher CBU export

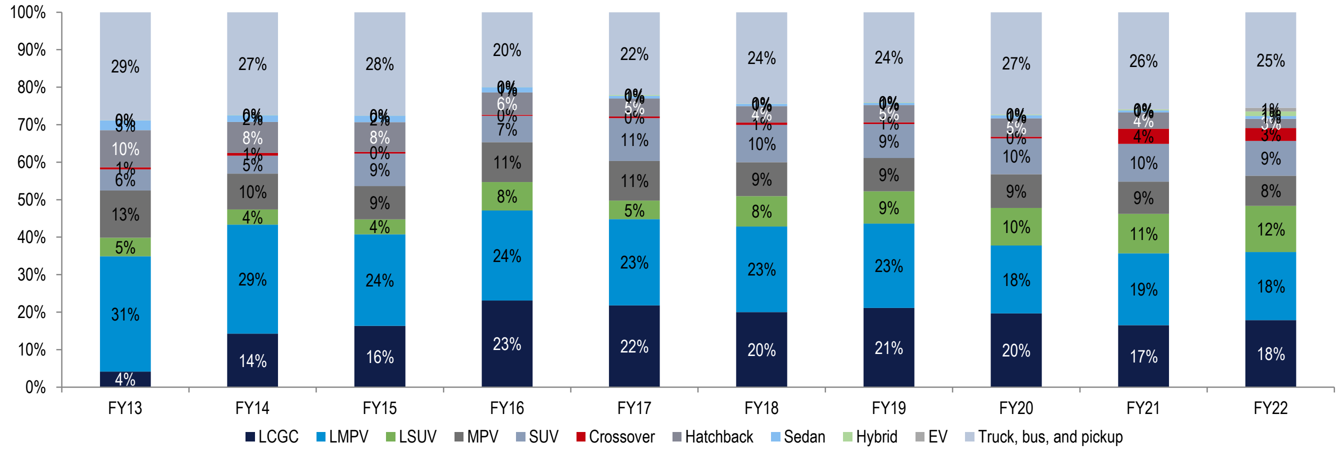


Source: Gaikindo, Indo Premier

As such, we expect ASII to see 4W margin improvements in FY23F due to: 1) the full-year impact of price hikes (c.10%) that were conducted gradually in FY22; and 2) product mix improvements driven by popular models in more premium segments. For instance, the entry-level Low-Cost Green Car (LCGC) segment's contribution to ASII's total sales has declined from c.30% at its peak in FY17 to c.24% in FY22. On the other hand, models like the Toyota Rush/Daihatsu Terios and the all-new Kijang Innova Zenix—which are higher-priced and hence generate higher margins, all else equal—are seeing solid traction. The Rush/Terios contribution grew from c.7% of ASII's total sales in FY17 to c.12% in FY22. Innova contributed c.8% of ASII's FY22 sales volume.

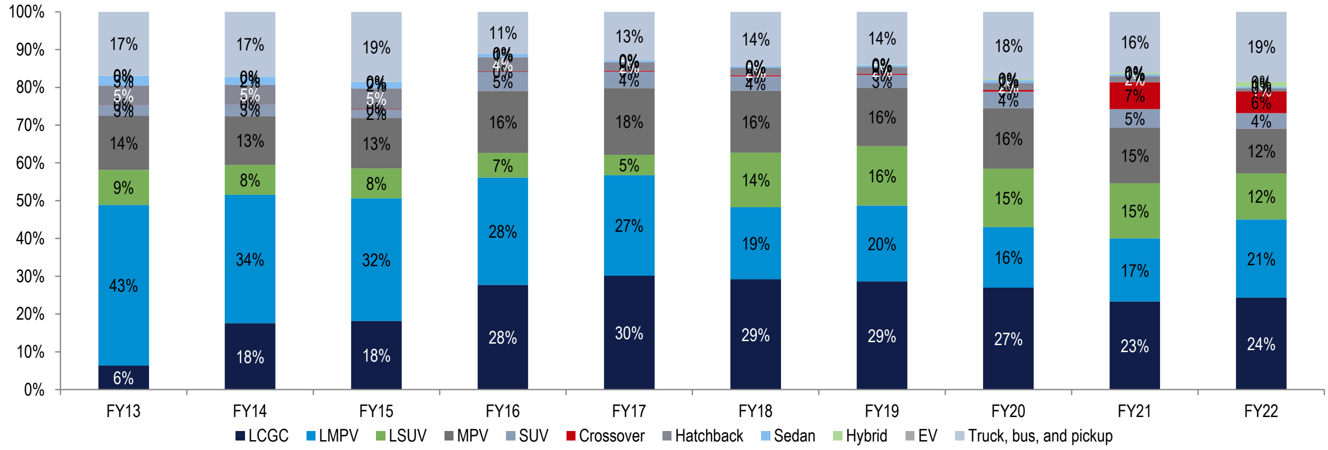
That said, we do not expect 4W margin to return to pre-2015 level, as distribution margin is likely to remain structurally lower. 4W margins declined following distribution channel restructuring in 2015, as the company's Auto2000 had previously taken a c.1.5-2.0% fee for car distribution to dealerships. We do not see 4W distribution margin (currently c.2%) returning to the previous level of >4%.

Fig. 42: 4W industry breakdown by segment; LSUV seems likely to continue to gain traction



Source: Gaikindo, Indo Premier

Fig. 43: ASII's 4W breakdown by segment



Source: Gaikindo, Indo Premier

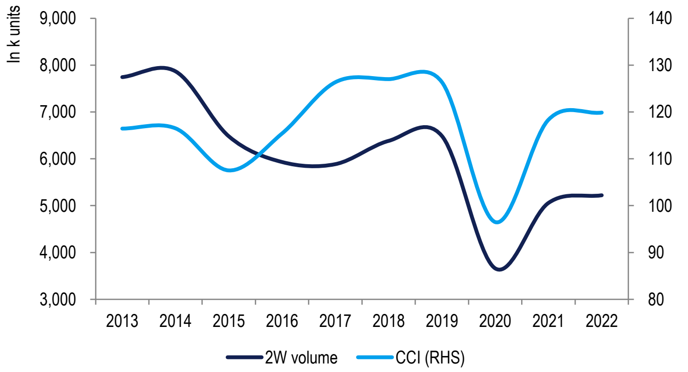
2-Wheelers

Overview

We project ASII's 2W revenue to grow by 5% yoy and the 2W industry's wholesale volume to increase to 5.4mn units (+5% yoy) in FY23F, driven by sustained mobility recovery and better semiconductor supply. This is largely in-line with Indonesia's GDP growth and at the low-end of AISI's (Asosiasi Industri Sepeda Motor Indonesia/Indonesian Motorcycle Industry Association) estimates of 5.4-5.6mn units. It is also worth noting that historically, in the year prior to the Presidential election (i.e., campaign year), industry's 2W sales growth tended to be positive and better than sales in the election year.

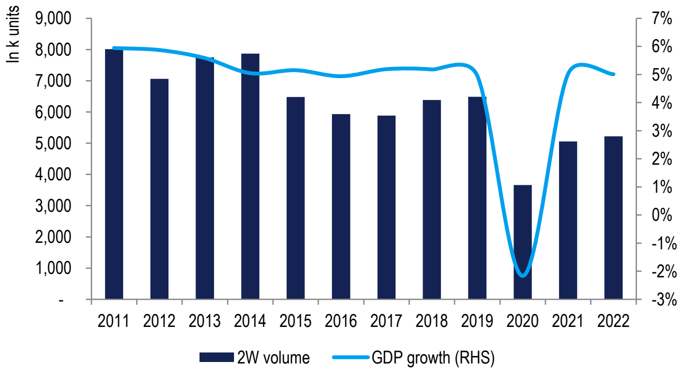
An upside risk to our industry sales volume estimate is successful product innovation (e.g., electric 2-wheelers/E2W), which could help to accelerate the replacement cycle. While ASII's dominant market share (c.76.5% in FY22) implies limited upside potential, we also see minimal downside risks, as we expect benign competitive pressure from Yamaha and E2W micro-brands. For FY23F, we expect ASII's market share to slightly decline to 75% (vs. 76.5% in FY22) and its 2W net margin to remain largely stable at 2.8%. Net profit composition should also remain largely unchanged, with distribution and manufacturing contributing about 20% and 80%, respectively.

Fig. 44: 2W sales vs. consumer confidence index (CCI)



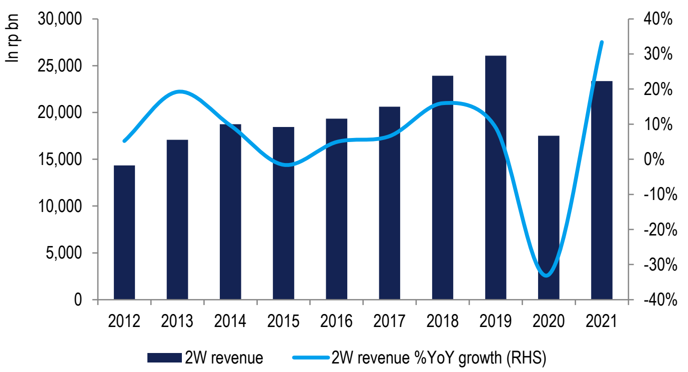
Source: AISI, CEIC, Indo Premier

Fig. 45: 2W sales vs. GDP growth



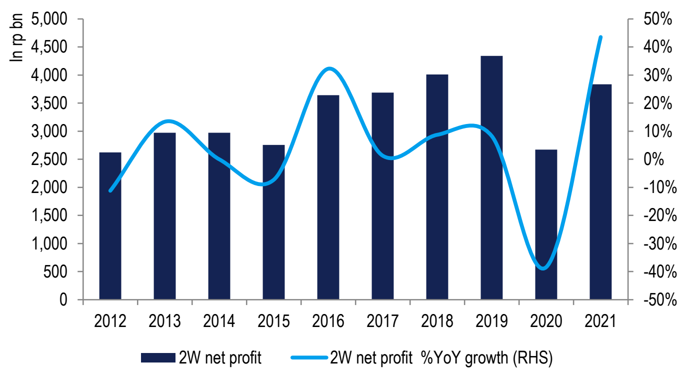
Source: AISI, CEIC, Indo Premier

Fig. 46: 2W revenue trend



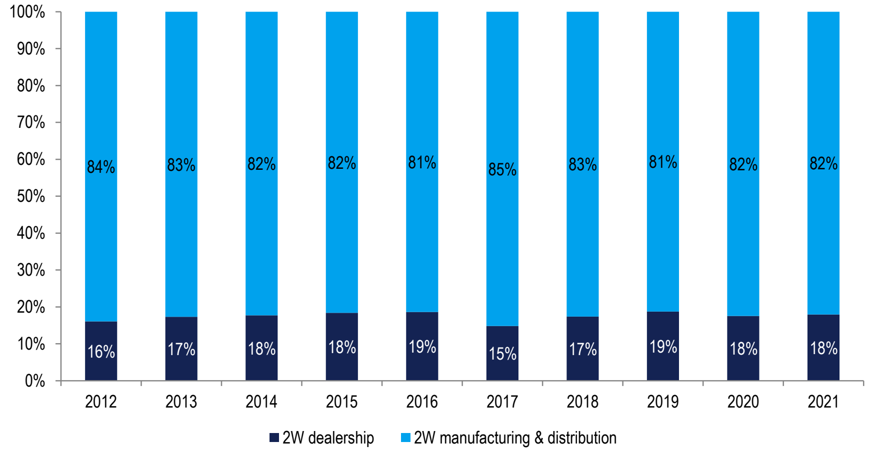
Source: Company, Indo Premier

Fig. 47: 2W net profit trend



Source: Company, Indo Premier

Fig. 48: 2W net profit breakdown



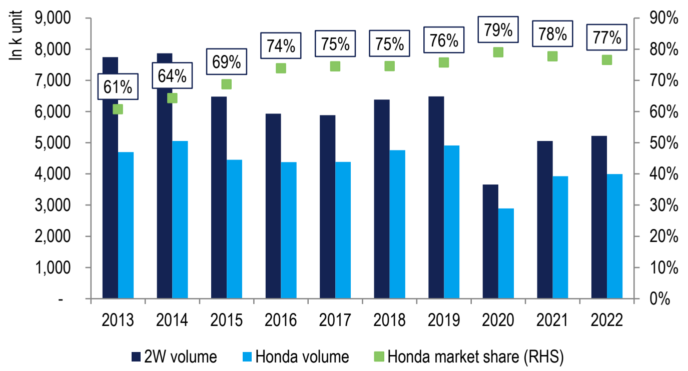
Source: Company, Indo Premier

ASII's 2W market share should remain stable at c.75%, with volume growth of 5% in FY23-24F, in-line with industry

The 2W industry's sales volume reached 5.2mn units in FY22 (+3.2% yoy), despite production disruptions from April to July caused by semi-conductor shortages. For FY23F, we expect the industry's wholesale volume to increase to 5.4mn units (+5% yoy).

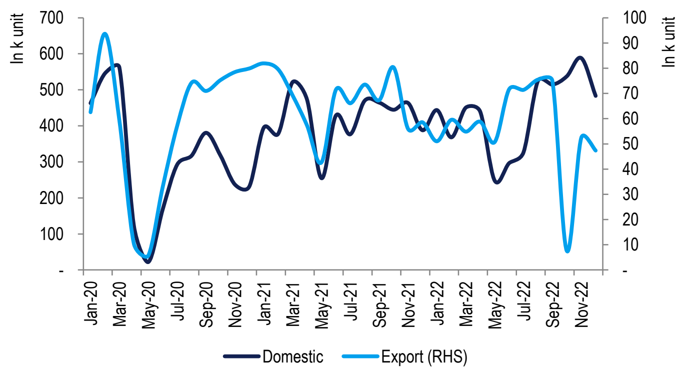
As of FY22, ASII's 2W market share remained stable at 76.5% (vs. 5-yr average of 76%). While ASII's market share dominance implies limited upside potential, we also see minimal downside risks, as Yamaha (the second largest player with a c.20% market share): 1) has under-utilized factory capacity (c.40% vs. Honda's 80%); 2) adopts a centralized system for its distribution and dealerships (which reduces the flexibility and responsiveness of its marketing and distribution); 3) typically launches fewer new products annually (c.10 models p.a. vs. ASII's c.20) and offers products at higher price points than ASII (the entry level model of Honda is at c.18% discount to Yamaha's entry level model); and 4) generally has a less liquid secondary market, which reduces resale value and hence the brand's attractiveness. Despite being a late-comer to the E2W space, we also see limited market share pressure from E2W micro-brands (more on this below; page 24).

Fig. 49: ASII's 2W market share remained stable at 76.5% in FY22



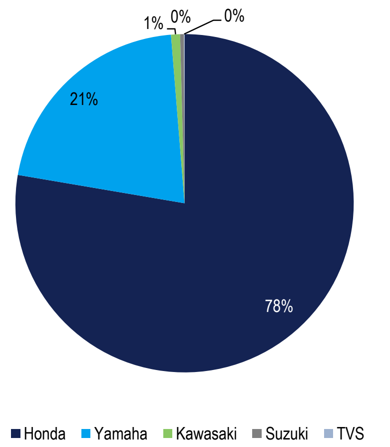
Source: AISI, Indo Premier

Fig. 50: 2W industry volume monthly in the past 3 years



Source: AISI, Indo Premier

Fig. 51: 2W market share as of 2021

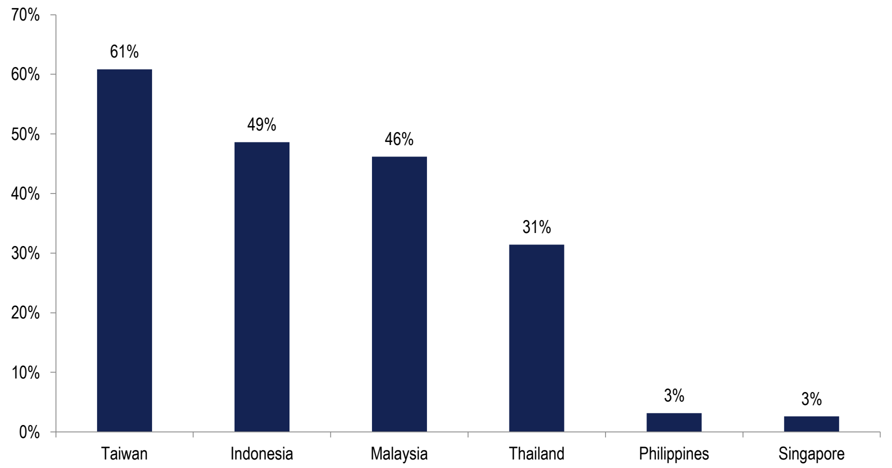


Source: AISI, Indo Premier

High 2W penetration means limited room for growth

Indonesia's 2W penetration (2W population/Indonesia's population) stands at c.49%. While some investors would argue that this figure should continue to increase and approach Taiwan's level (c.61%), we believe that this seems unlikely, as Taiwan is a small island (i.e., easily traversable by 2W) with a well-developed and integrated infrastructure for 2W. Indonesia, meanwhile, is an archipelagic country with underdeveloped infrastructures in its Tier-2/3 cities. Indonesia, in our view, is more comparable to other ASEAN countries, like Malaysia and Thailand. Relative to these countries' 2W penetration level of c.46%/31%, respectively, Indonesia's penetration level is already-high. Thus, we believe Indonesia's 2W penetration is approaching its peak and unlikely to reach Taiwan's level

Fig. 52: 2W penetration (2W population/total population) by country



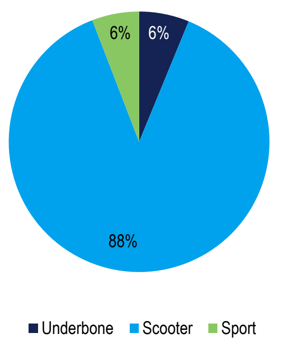
Source: Various news, Indo Premier

Product innovation is likely to be key in stimulating growth

Nonetheless, we believe it is possible to stimulate sales growth through other means, especially product innovation. While the 2W replacement cycle is about 10 years, we believe product innovation can accelerate the cycle and drive sales volume growth.

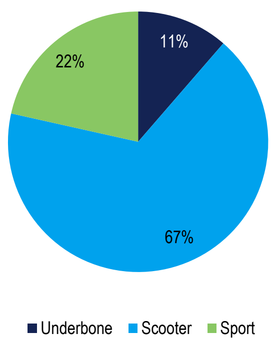
In the past decade, there has been minimal innovation within the 2W space. The last major innovation was in FY02, when scooters were introduced and swiftly overtook underbones. Scooters have become the dominant product in the market, accounting for c.88% of industry sales in FY22 vs. only c.3-4% in FY04.

Fig. 53: 2W domestic product composition (2022)



Source: AISI, Indo Premier

Fig. 54: 2W export product composition (2022)



Source: AISI, Indo Premier

Given advances in EV technology, government support, and mushrooming micro-brands, we believe the E2W segment could gradually gain traction in the coming years, effectively shortening the 2W replacement cycle. However, given that the segment's long-term growth trajectory will depend on numerous factors (product innovations and price points, government support, supply chain readiness, infrastructure development, etc.), we think it is a tad early to be bullish on the prospect of E2W driving a return to annual 2W sales volume of 7-8mn units (a level last witnessed in FY10-14) in the near term. Currently, we conservatively expect E2W to grow from c.0.7% of industry sales volume in FY22 to 1.5% in FY24F.

Although ASII (i.e., Honda) will introduce real E2W products only beginning in FY24F (it plans to launch two electric mopeds this year, but no electric motorcycle), we see limited downside risks to its market share, as: 1) E2W products are currently offered only by micro-brands (like Volta and Gesits; a total of >40 E2W micro brands are currently in Indonesia), which have limited brand equity and production capacity, and are also offered at higher price points than conventional 2W products (although some models are likely to become cheaper than Honda's entry-level model, if the discussed subsidies of c.Rp7mn per E2W can be implemented); 2) the current models have limited driving range (average of c.75km vs. 266km for conventional 2W from Honda and Yamaha); and 3) supporting infrastructure is insufficient (with the lack of battery-swap facilities being a particular concern due to the limited driving range). The impact on ASII's bottom line is also likely to be limited; based on our sensitivity analysis, all else equal, for every 1ppt 2W market share loss, ASII's FY23F net profit should decline merely by around -0.1%.

In the long run, though we see limited market share upside, we expect ASII to maintain its market-leading position, as micro-brands do not have the capital, brand equity, track record, and scale that ASII possesses. Recall that despite being a relative latecomer to the scooter market in FY04 (Yamaha was the first mover), ASII managed to rapidly grow its market share through a number of successful products and is now the market leader.

Fig. 55: Some of the more popular E2W brands that are currently in Indonesia

Brand	Partner	Ownership	Power (in W)	Distance (in km)	Max speed (km/h)	Launching period	OTR (Rp mn)	Note
Viar	Grab	PT Triangle Motorindo	350-2,500	60-110	25-60	2017	22-23	4-6hours until full charge
Volta	SiCepat	PT Volta Indonesia Semesta	1,000-1,500	60	55-60	2020	14-19	
Gesits	Gojek	PT WIKA Industri Manufaktur	5,000	50	70	2019	29	3-4hours until full charge
Smoot	Lazada and Pos Indonesia	PT Swap Energi Indonesia	1,500	60	60	2021	18-20	64 V 21.5Ah
Gogoro	Gojek	Collaboration between Gogoro, Electrum and Gojek	3,000-7,400	85-170		2021	27-65	Distance @30km/h
Selis	Bank Mandiri	PT Juara Bike	350-2,000	25-120	25-80		14-31	
Alva One		Ilectra Motor Group	4,000	70	90	2022	36.5	60V 45Ah

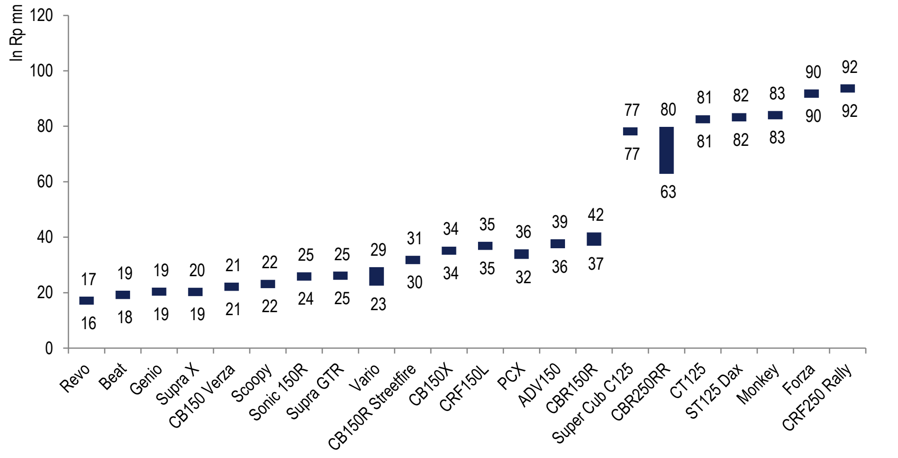
Source: Various news, Indo Premier

Fig. 56: Current E2W models have significantly shorter driving range vs. conventional 2W

EV		Conventional	
Brand	**Estimated distance (in km)**	**Brand**	**Estimated distance (in km)**
Viar	85	Honda Beat	246
Volta	60	Honda Genio	248
Gesits	50	Honda Scoopy	260
Smoot	60	Honda Vario 125	327
Gogoro	127.5	Honda Vario 160	258
Selis	72.5	Honda PCX	365
Alva One	70	Honda ADV150	342
		Honda Forza	454
		Yamaha Grand Filano	231
		Yamaha Fazzio Hybrid	263
		Yamaha Gear	197
		Yamaha Freego 125	189
		Yamaha X-Ride	206
		Yamaha Mio M3	210
		Yamaha Fino	200
Average	**75**	**Average**	**266**

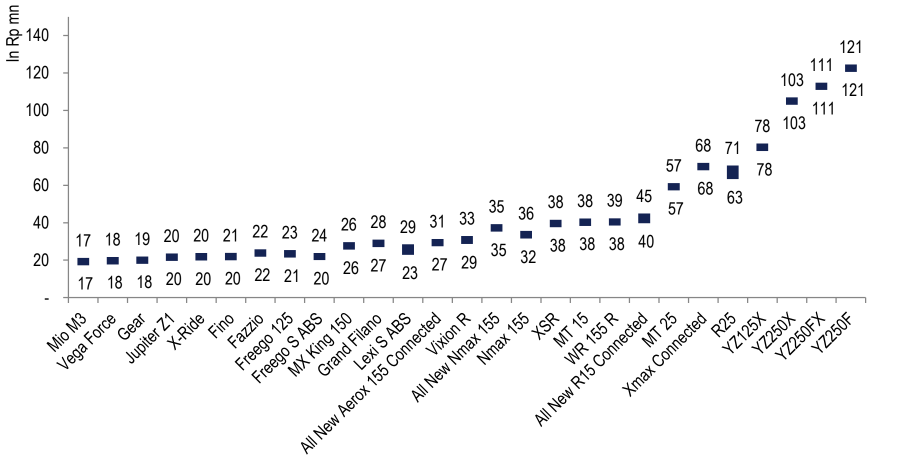
Source: Various news, Indo Premier

Fig. 57: Honda's 2W product prices



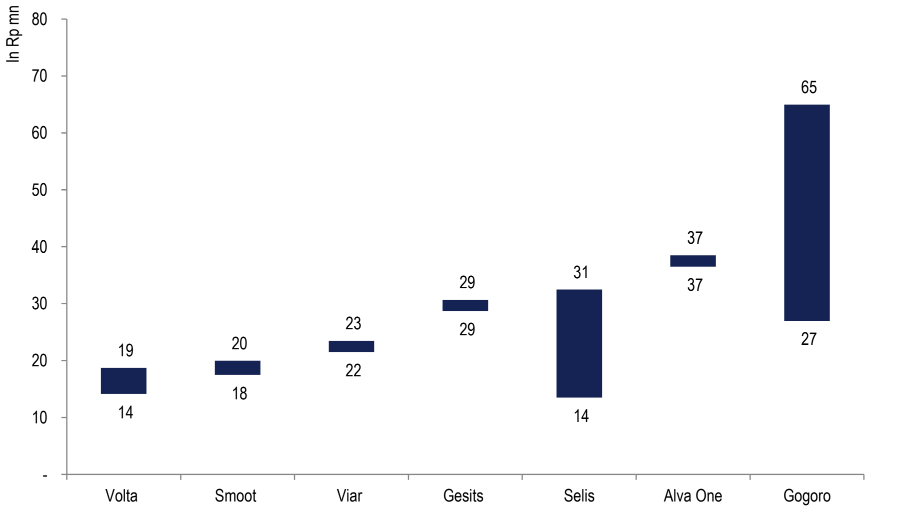
Source: Company, Indo Premier

Fig. 58: Yamaha's 2W product prices



Source: Company, Indo Premier

Fig. 59: E2W product prices



Source: Various news, Company, Indo Premier

Automotive components (AUTO)

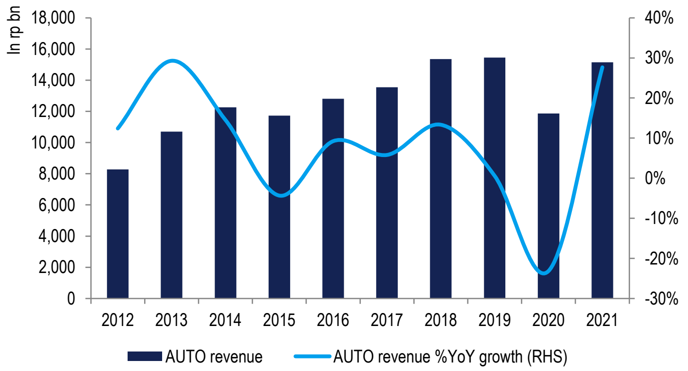
Margins are likely to stabilize

Astra Otoparts (AUTO; Not-rated) is a component subsidiary of ASII, which contributes around 5% to ASII's automotive business' net profit and 2% to ASII's overall bottom-line. Given that c.69% of its revenue comes from ASII (likely to remain largely unchanged in the near/mid-term, according to the company), we expect AUTO's revenue trend to largely grow in-line with ASII's 4W and 2W sales volume growth. Supported by favourable competitive landscape, we expect AUTO to see 5% revenue growth, on average, in FY23-24F. In the longer run, we believe that the company can potentially benefit from higher EV penetration, as it has the capability to rollout charging stations (for both, commercial and private usage).

It is worth noting that the company's margins have been deteriorating in recent years, largely due to a change in revenue mix (higher contribution from manufacturing business, which has lower margin; now at c.54% of revenue) and investments in new ventures, which have sub-10% margins. Notably, operating margin declined from 6% in 2013 to 4% in FY22F, while net margin fell from 9% in FY13 to 6% in FY22F. For FY23-24F, we expect operating margin to remain largely flattish at 4%, as revenue composition seems likely to remain unchanged. This, coupled with stable contributions from its key JVs, like PT GS Battery (50% ownership), PT Akebono Brake Astra Indonesia (50% ownership), PT AT Indonesia (40% ownership), should translate to stable net margin at 6%, in our view.

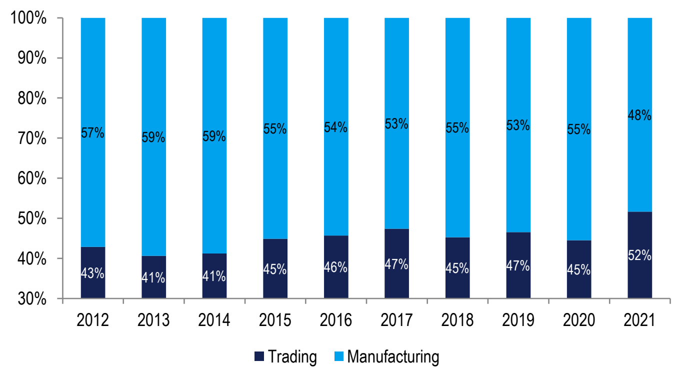
Key downside risk to our margin assumptions is the changes in raw material prices, as contract for most raw material purchases are only for 1-2 months and it typically takes about 3-6 months for the company to adjust its prices to pass-through the higher input costs to its customers. On a separate note, capex is likely to remain stable at around 500bn in the near/mid-term, with c.80% of this assigned for maintenance capex.

Fig. 60: Revenue and y-y growth in the past 10 years



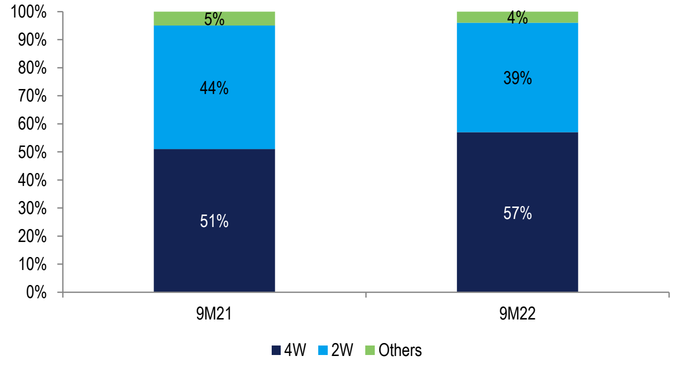
Source: Company, Indo Premier

Fig. 61: Revenue composition in the past 10 years



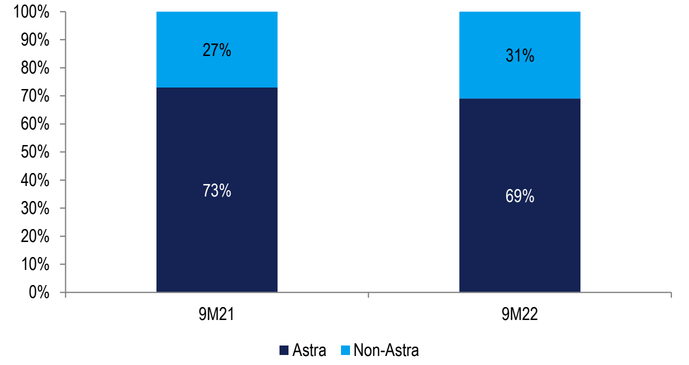
Source: Company, Indo Premier

Fig. 62: Revenue by segment



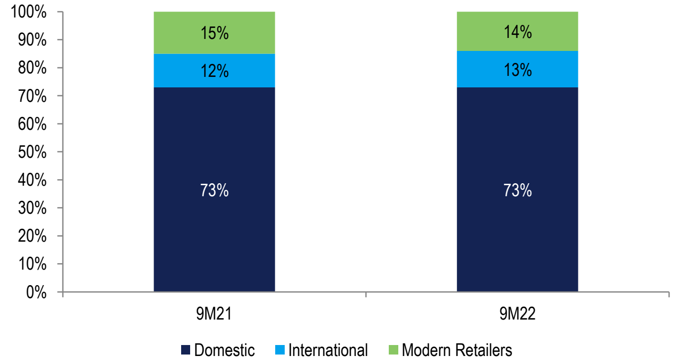
Source: Company, Indo Premier

Fig. 63: Revenue by Astra and non-Astra to OEM customer



Source: Company, Indo Premier

Fig. 64: Trading group composition



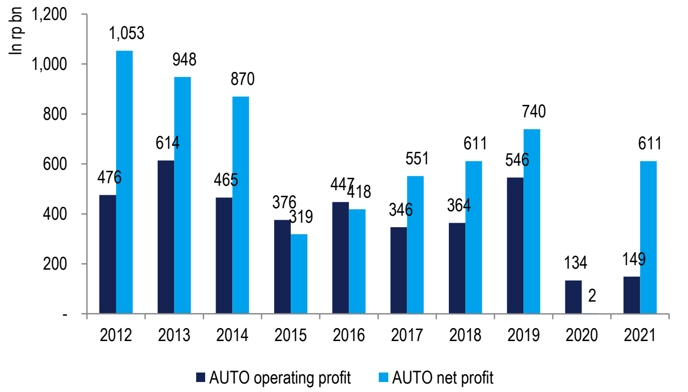
Source: Company, Indo Premier

Fig. 65: Shop & Drive outlets by area

Area	2018	2019	2020	2021	9M22
Jabodetabek	139	142	143	144	147
Banten	6	6	6	6	6
East Java	50	53	54	54	55
West Java	47	49	47	47	48
Central Java and Yogyakarta	41	41	42	42	41
Sumatera	42	41	39	37	37
Bali and West Nusa Tenggara	10	11	10	9	9
Kalimantan	25	24	21	21	21
Sulaw esi	15	13	12	12	13
Total	**375**	**380**	**374**	**372**	**377**

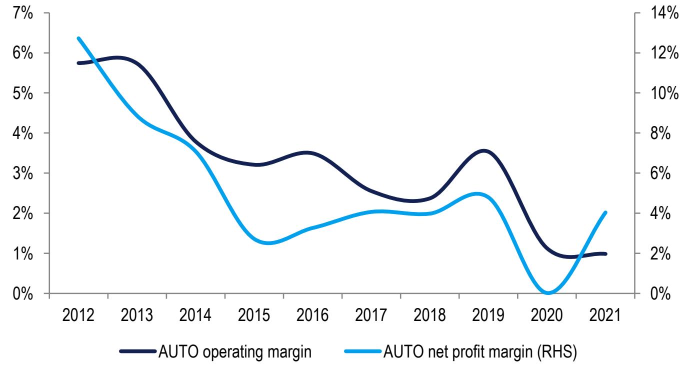
Source: Company, Indo Premier

Fig. 66: Operating and net profit growth in the past 10 years



Source: Company, Indo Premier

Fig. 67: Operating and net margin in the past 10 years



Source: Company, Indo Premier

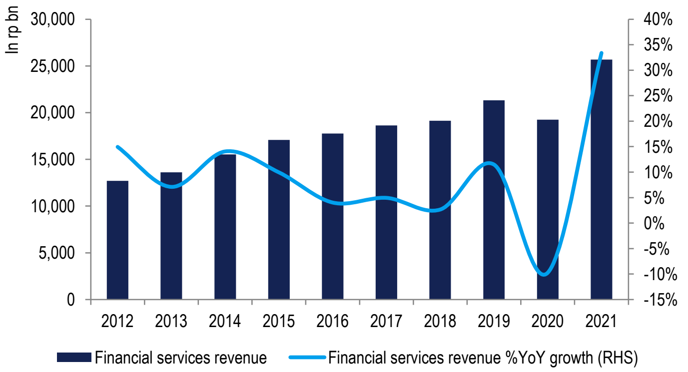
Financial services

Positive trend to continue

ASII's financial services business accounts for c.21% of our SOTP valuation. While we expect Federal International Finance/FIF to see +5% loan book growth, in line with 2W sales volume growth, Astra Credit Company/ACC should see flattish loan book growth amid a marginal decline in 4W sales volume. Still, both companies should remain resilient this year, given our expectations of: 1) a benign competitive landscape; 2) stable net interest margin (NIM) despite rising cost of funds (COF), supported by higher asset yield (+50bps); and 3) cost-to-income ratio (CIR) and cost of credit (COC) improvements backed by lower provisions (as asset quality seems likely to remain intact). Restructuring should continue this year, with only about Rp1-2tr remaining (about 5% of the total loan restructured due to the pandemic). Non-performing financing (NPF) seems likely to remain manageable at <1%.

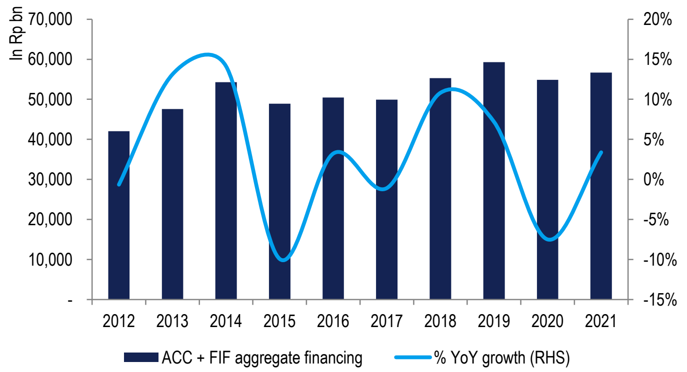
Meanwhile, we project the insurance business (Asuransi Astra Buana/AAB) to see gross written premium (GWP) growth of 3% yoy in FY23F. Combined ratio seems likely to increase to 77% (vs. 75% in FY22F) despite a flattish expense ratio (likely around 20%), as we expect the claims ratio to increase to 59%, gradually approaching the pre-COVID level (c.63-65%).

Fig. 68: Financial services revenue trend



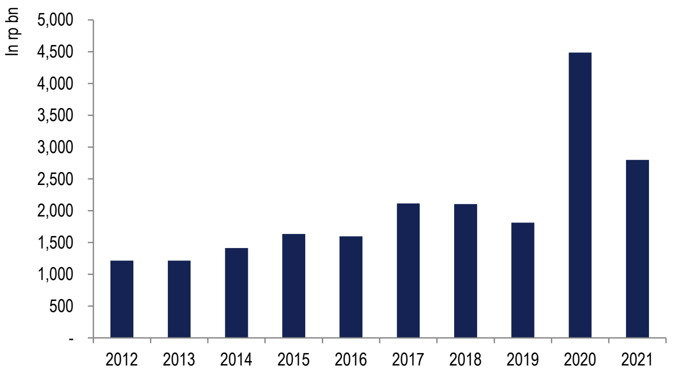
Source: Company, Indo Premier

Fig. 69: ACC and FIF aggregate financing



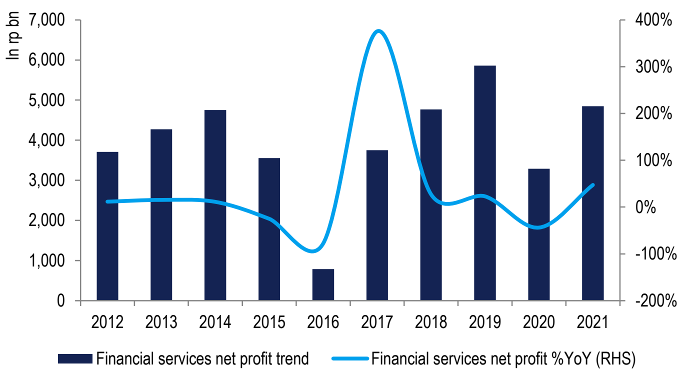
Source: Company, Indo Premier

Fig. 70: ACC and FIF aggregate provisions



Source: Company, Indo Premier

Fig. 71: Financial services net profit trend



Source: Company, Indo Premier

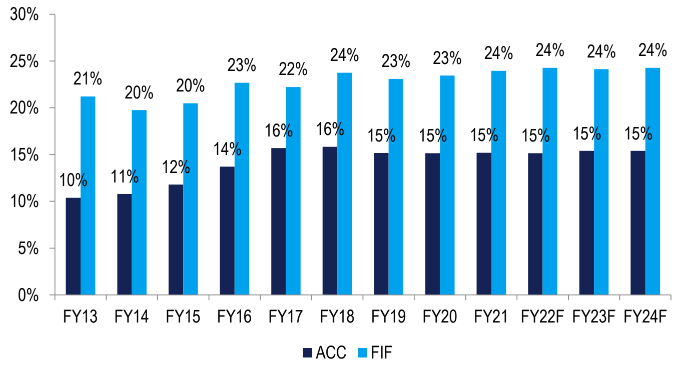
Fig. 72: All else being equal, we estimate that every 100bps hike in interest rates could translate to about +5% monthly instalment cost and +3% the total cost of the car

5% interest rate		6% interest rate	
Avanza price (Rpmn)	250	Avanza price (Rpmn)	250
Downpayment requirement (%)	25%	Downpayment requirement (%)	25%
Downpayment (Rpmn)	62.5	Downpayment (Rpmn)	62.5
Value of loan taken (Rpmn)	**188**	**Value of loan taken (Rpmn)**	**188**
Loan tenor (years)	5	Loan tenor (years)	5
Interest rate p.a. (%)	**5%**	**Interest rate p.a. (%)**	**6%**
Future value of loan (Rpmn)	**240.6**	**Future value of loan (Rpmn)**	**252.9**
Monthly instalment (Rpmn/month)	**4.0**	**Monthly instalment (Rpmn/month)**	**4.2**

7% interest rate		8% interest rate	
Avanza price (Rpmn)	250	Avanza price (Rpmn)	250
Downpayment requirement (%)	25%	Downpayment requirement (%)	25%
Downpayment (Rpmn)	62.5	Downpayment (Rpmn)	62.5
Value of loan taken (Rpmn)	**188**	**Value of loan taken (Rpmn)**	**188**
Loan tenor (years)	5	Loan tenor (years)	5
Interest rate p.a. (%)	**7%**	**Interest rate p.a. (%)**	**8%**
Future value of loan (Rpmn)	**265.8**	**Future value of loan (Rpmn)**	**279.3**
Monthly instalment (Rpmn/month)	**4.4**	**Monthly instalment (Rpmn/month)**	**4.7**

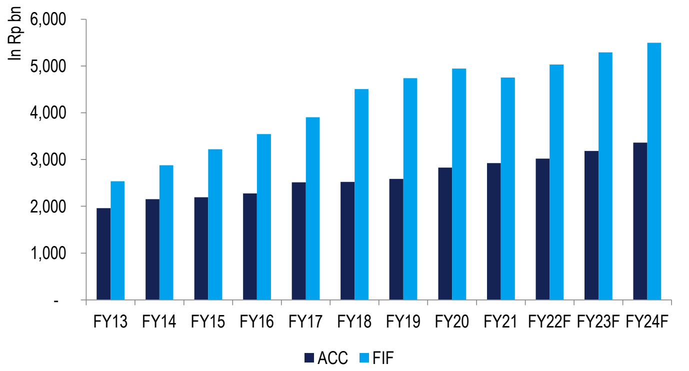
Source: Company, Indo Premier

Fig. 73: We expect NIM of ACC and FIF to remain largely stable



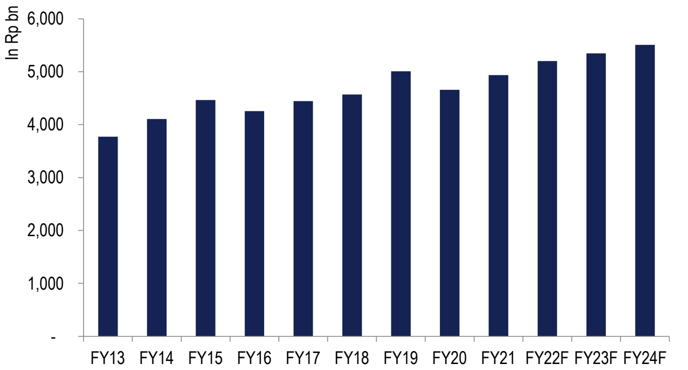
Source: Company, Indo Premier

Fig. 74: Improving PPOP trend for ACC & FIF



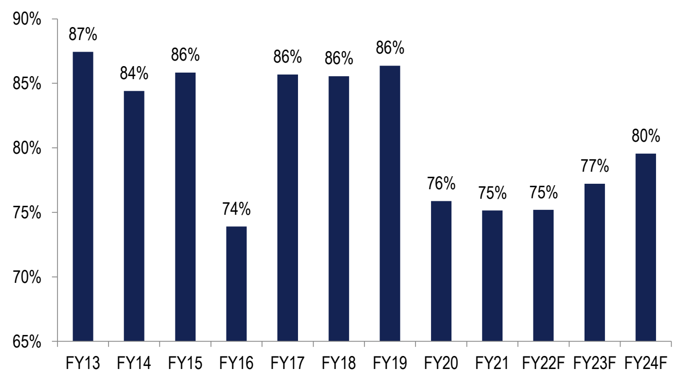
Source: Company, Indo Premier

Fig. 75: Gross written premium of Astra Buana



Source: Company, Indo Premier

Fig. 76: Combined ratio of Astra Buana to gradually normalize



Source: Company, Indo Premier

United Tractors (UNTR)

Undemanding valuation post-23% share price correction

United Tractors (UNTR; BUY/TP: Rp29,700; covered by Erindra Krisnawan) makes up for c.27.4% of our ASII's SOTP valuation. We recently revised our FY23/24F earnings by -12/+5% on lower earnings from mining, partly offset by resilient earnings from Pama and equipment, and lowered our SOTP-based TP to Rp29,700 (from Rp30,000 previously). However, we upgraded our rating to BUY (from HOLD previously), as valuation seemed undemanding at 1.6x EV/ EBITDA (c.64% discount to 10-year mean) post-23% share price correction over the past 3 months. (Please see our latest report on UNTR: Soft FY23F coal outlook, but correction seems overdone; upgrade to BUY).

Mining: coal ASP decline; gold's production to half

We expect TTA coal sales to grow +5% yoy, on the back of improving weather outlook. However, this should be offset by the decline in thermal/coking coal price to US$240/260 per mt (-33/27% yoy). We also further cut Martabe mine's gold sales volume in FY23F to 125k oz but raise its FY24F volume to 200k oz as management indicated the additional tailing capacity to be completed by 1Q24.

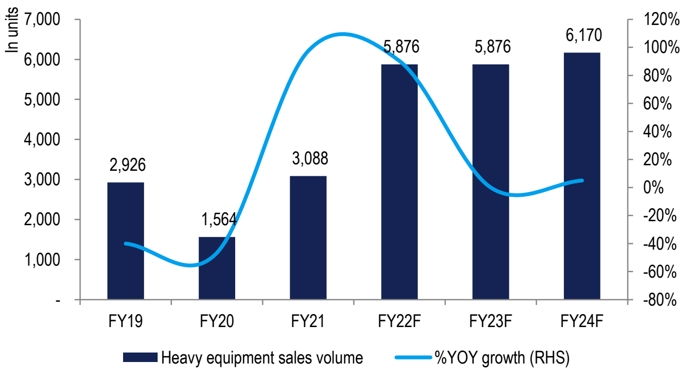
Pama's resilient volumes and mining fee should be a boon for earnings

Pama's coal/OB production volume has been historically resilient against coal price downcycle. Nonetheless, we now forecast a more conservative volume of 132Mt/1,029mbcm of coal/OB in FY23F (+5/5% yoy, 4% lower than our previous forecast). We expect Pama's mining fee to be maintained at US$2.8/bcm (vs. US$2.6/bcm previously), as its fee structure only sees downside if coal price falls below US$120/t. We see upside earnings risk if Pama improves production efficiency amid the better weather conditions.

Flat equipment volume and resilient service revenue

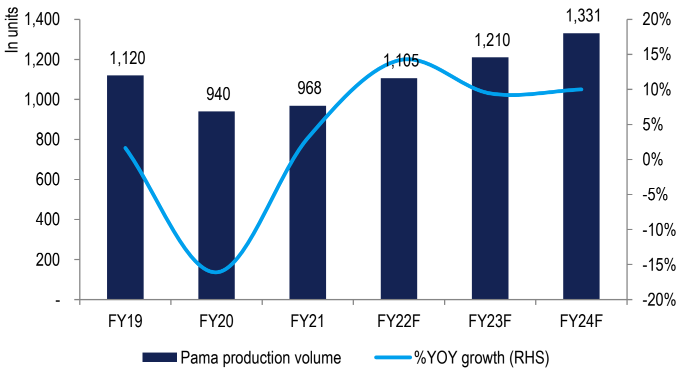
We forecast flat yoy Komatsu sales at 5,650 units (vs. our forecast 6,464 units previously) to reflect potential resilient demand from the mining sector (~50% of total sales volume) amid our still constructive view on long-term coal price and easing equipment supply bottleneck from principal Komatsu. We also project steady revenue from parts and services (~50% of HE's revenue) to offer cushion against demand risk if coal price corrects further.

Fig. 77: Heavy equipment sales volume



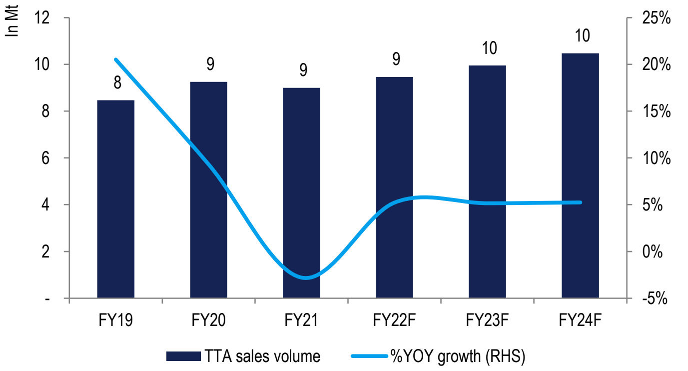
Source: Company, Indo Premier

Fig. 78: Pama production volume



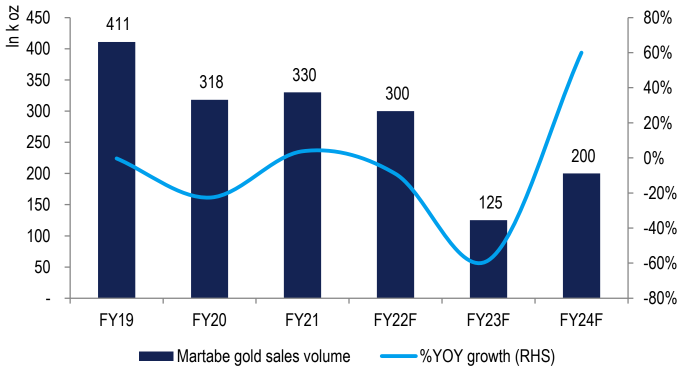
Source: Company, Indo Premier

Fig. 79: TTA sales volume



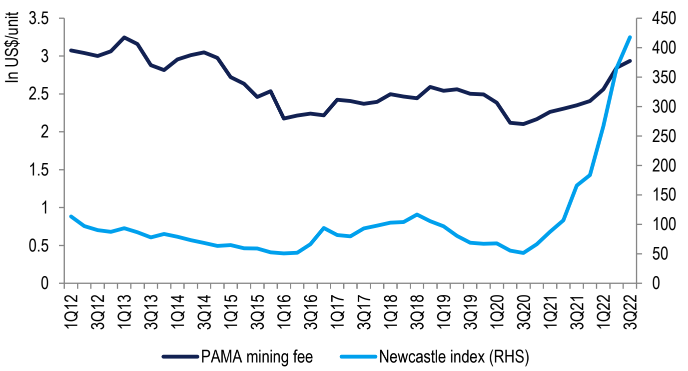
Source: Company, Indo Premier

Fig. 80: Martabe gold sales volume



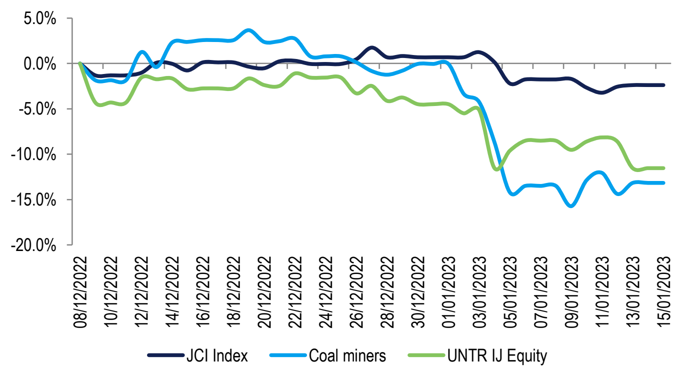
Source: Company, Indo Premier

Fig. 81: Pama mining fee vs. Newcastle



Source: Company, Bloomberg, Indo Premier

Fig. 82: UNTR share price performance



Source: Bloomberg, Indo Premier

Astra Agro Lestari (AALI)

Softer bottom line in FY23F, as CPO prices seem likely to trend lower

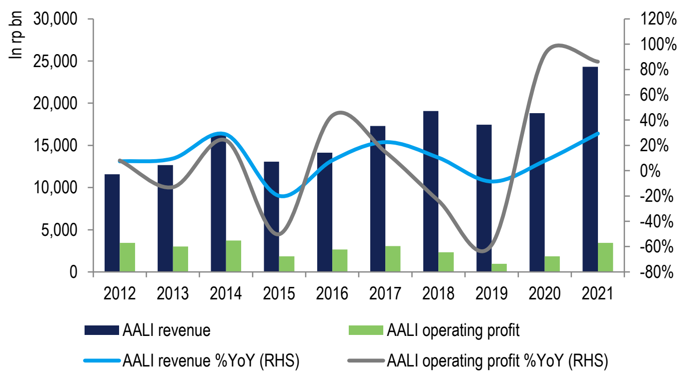
Astra Agro Lestari (AALI; Not rated) represents c.5% of our SOTP valuation of ASII. With AALI's production likely to remain lacklustre (due to its mature plants), prices are the most important driver of earnings, in our view.

CPO prices, in our view, seem likely to hover at around RM3,700-4,000/MT in the near term given seasonally low production at major producing countries (i.e., Indonesia and Malaysia) during the monsoon season. Indeed, the ongoing La Nina could cause flooding in the region in 1Q23, affecting operations and limiting output. At the same time, the Indonesian government's decision to increase the biodiesel blending mandate from 30% to 35% by February 2023 should support CPO demand; we estimate this could increase palm oil use for fuel from 10.2MMT in FY22F to 12.5MMT in FY23F (+22.5% yoy).

For FY23F as a whole, however, we expect average CPO prices to trend lower at around RM3,100/MT (-40% yoy), as higher global supply from 2Q23 onwards could put pressure on prices in 2H23. According to the US Department of Agriculture (USDA), global CPO production is likely to grow by c.5% in FY23F, after being largely flat since FY20. Indeed, based on the latest production data, Indonesia's CPO production has continued to trend upwards since 6M22, while Malaysia's volumes were up yoy in 2H22 despite a labour shortage. Foreign worker availability in Malaysia is gradually improving, and we expect the situation to normalize by mid-2023, which should improve harvest frequency and output. We also expect to see higher global production for the eight major vegetable oils. The less favourable macroeconomic backdrop in certain countries represents another key downside risk, as it could also potentially curb global consumption.

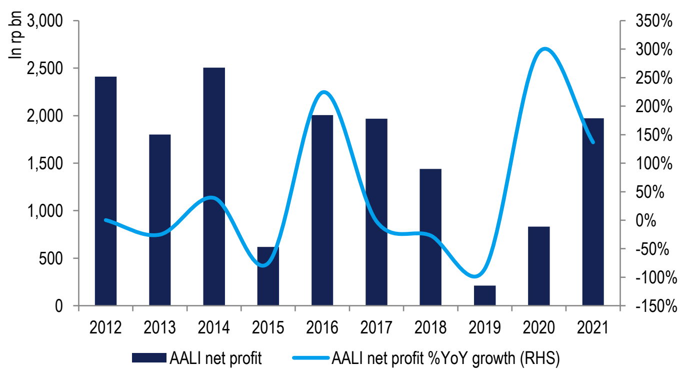
All in all, we forecast AALI to see revenue and earnings contract by c.39%/74% in FY23F, amidst lower production due to mature plants (-5% yoy) and lower CPO prices (-40% yoy).

Fig. 83: AALI revenue and operating profit trend



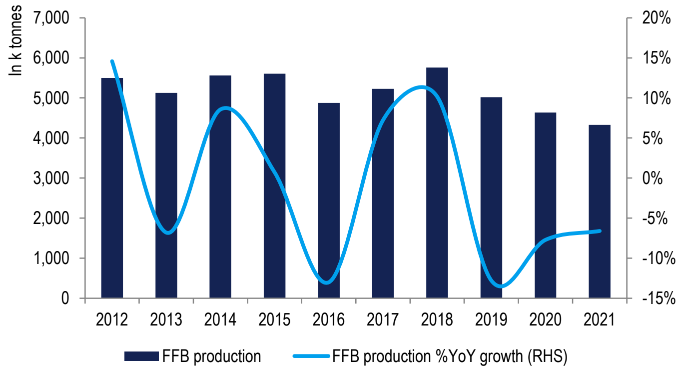
Source: Company, Indo Premier

Fig. 84: AALI net profit trend



Source: Company, Indo Premier

Fig. 85: AALI FFB production trend

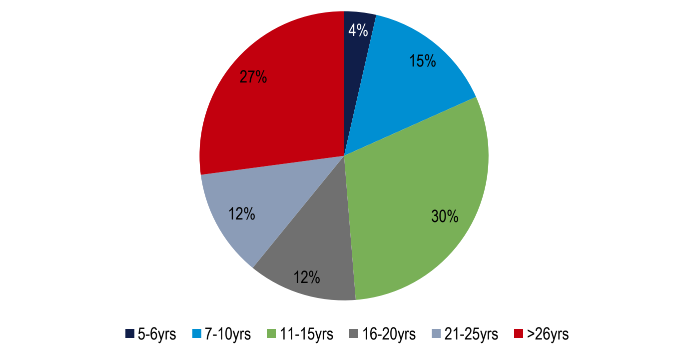


Source: Company, Indo Premier

Fig. 86: AALI CPO sales volume

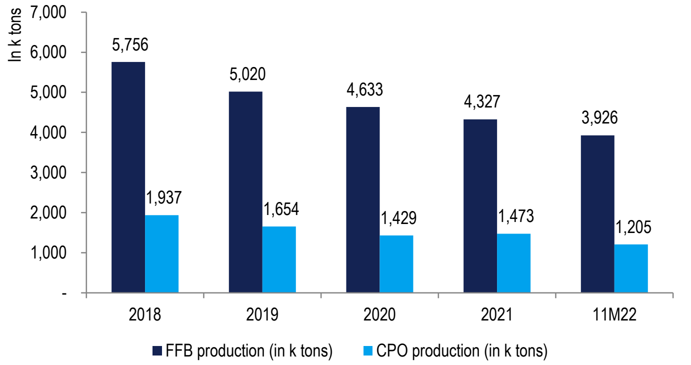
Source: Company, Indo Premier

Fig. 87: Age profile as of Nov22



Source: Company, Indo Premier

Fig. 88: Production performance for FFB & CPO 2018-11M22



Source: Company, Indo Premier

Fig. 89: Oil palm planted area as of Nov22

Description		11M22	11M21	%YoY growth
Replanting (in ha)		**4,157**	**4,471**	**-7.0%**
Total palm planted area (in ha)		**286,727**	**287,604**	**-0.3%**
Mature area		265,110	265,267	-0.1%
	Nucleus	192,881	193,038	-0.1%
	Plasma	72,229	72,229	0.0%
Immature area		21,617	22,337	-3.2%
	Nucleus	21,617	22,337	-3.2%
	Plasma	-	-	0%

Source: Company, Indo Premier

Other businesses

ASII's other businesses (infrastructure, logistics, information technology/IT, and property) make up for c.5.6% of our ASII's SOTP valuation. Although we expect the outlook of these businesses to gradually improve in the upcoming years (partly driven by sustained mobility recovery and higher toll road traffic with better Trans-Java connectivity), substantial capex and sub-par ROE trend in the past decade remain a concern.

Infrastructure and logistics

In 9M22, infra and logistics segment reported revenues of Rp5.7tr (+16% yoy) which contributed c.3% to ASII's revenues. Gross margin declined slightly to 33.0% in 9M22 (vs. 33.3% in 9M21). Currently, Astra Infra has 2 business lines: toll roads and port services, which are managed by Astra Tol Nusantara and Astra Nusa Perdana, respectively. Astra Tol Nusantara holds 8 toll road concessions with a combined length of 396km across Jakarta and Java region. The company plans to continue to expand its portfolio through brownfield acquisitions in the Java region. Meanwhile, Astra Nusa Perdana owns the Penajam Banua Taka port in Selat Makassar (East Kalimantan), which provides services for the oil, gas, and mining industries. This port also provides warehouse space, office space, and an open yard for mixed-use. On the logistics side, Astra owns Serasi Autoraya (also known as SERA), a company that provides used car sales, logistics, and transportation services. As of 9M22, secondhand-car sales declined to 19.7k units (-18% yoy).

Fig. 90: Astra toll road portfolio (FY22)

Toll Road Concession		Toll Road Length (in km)
Marga Mandala Sakti (MMS)	Tangerang-Merak	72.5
Marga Trans Nusantara (MTN)	Kunciran-Serpong	11.1
Marga Lingkar Jakarta (MLJ)	JORR I (Ulujami-Kebon Jeruk)	7.7
Lintas Marga Sedaya (LMS)	Cikapo-Palimanan	116.8
Trans Marga Jateng (TMJ)	Semarang-Solo	72.6
Marga Harjaya Infrastruktur (MHI)	Jombang-Mojokerto	40.5
Jasamarga Surabaya Mojokerto (JSM)	Surabaya-Mojokerto	36.3
Jasamarga Pandaan Malang (JPM)	Pandaan-Malang	38.5
Total		**396**

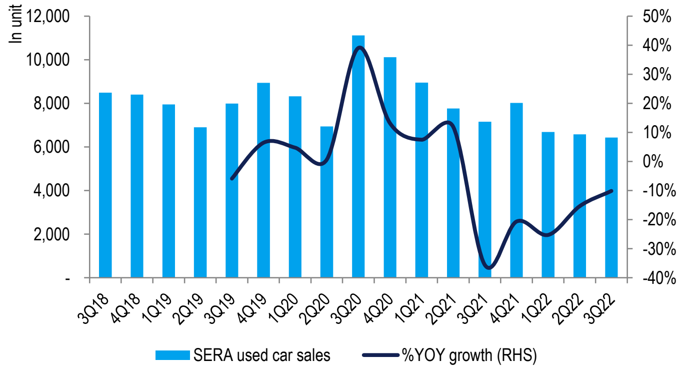
Source: Company, IndoPremier

Fig. 91: SERA business segment

Segment	Businesses	Description
Logistic	SELOG	Provides end-to-end logistics services w ith different services.
Transportation	Astra Fleet Management Solution (FMS)	Information technology-based system for managing automobiles and transportation in Indonesia; also handles passenger transportation and logistics demands.
	TRAC	Rental services for automobiles, buses, and motor vehicles for corporations and individuals. Additionally, the organization offers driver rental services.
Pre-ow ned car sales	Mobil88	Used car purchasing and selling enterprise w ith 21 locations in Indonesia.
	iBid	Auction services for automobile, motor vehicle, gadget and heavy equipment

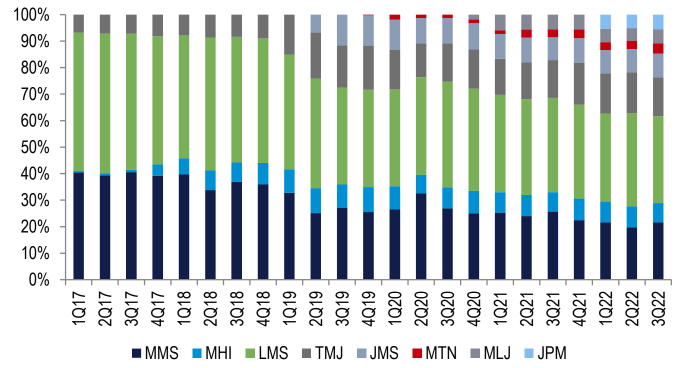
Source: Company, IndoPremier

Fig. 92: SERA used car sales



Source: Company, Indo Premier

Fig. 93: Toll road revenue contribution



Source: Company, Indo Premier

Information Technology

ASII's IT segment includes Astra Graphia (ASGR; Not-rated), which has three key business lines: document, IT, and offices solutions. The document solution provides an end-to-end solution for printing needs, ranging from personal printing to managed-printing services, while the IT solutions offer hardware and software products, as well as IT services. Office solution provides B2B online printing services, e-commerce AXIQoe.com one-click office solution, and now, 3D printing. Indeed, ASGR recently forayed into the 3D printing business through its subsidiary, Astragraphia Xprins Indonesia (AXI). We expect ASGR's revenue to grow by +3% yoy in FY23F, driven by sustained mobility recovery, which should translate to higher work-from-office activities. Rising digitalization also implies a long runway of growth for ASGR.

Property

Astra Land Indonesia (ALI) currently amasses five property projects in its portfolios, with focus on commercial and residential properties in the Jakarta area. Based on our discussions with the company, in the near/mid-term, it plans to focus more on landed residential projects, as the commercial market in Jakarta remains oversupplied. ALI plans to starts the construction of a new residential project in Cikupa before end-FY23F. Going forward, we expect to see better margins, given its focus on residential projects. Generally, apartments has lower gross margin of c.30-60% compared to landed residential at c.40-85%.

Fig. 94: Astra property portfolio

Commercial
Menara Astra
Kaw asan Perkantoran Asuransi Astra
Residential
Andamaya Residences
Asya
Arumaya

Source: Company, IndoPremier

Structurally weaker ROE delivery

ASII's overall ROE fell from 23.7% in FY12 to 9.8% in FY21 (12.1% in FY19 pre-COVID) and we believe that it is unlikely to return to the >20% level witnessed in pre-FY14, due to a combination of 4W distribution restructuring, intensifying 4W competition, and dilutive M&A. We expect ROE to hover at c.11-12% in the long-run.

4W distribution restructuring and intensifying competition

4W margins declined following distribution channel restructuring in 2015, as the company's Auto2000 had previously taken a c.1.5-2.0% fee for car distribution to dealerships. We do not see 4W distribution margin (currently c.2%) returning to the previous level of >4%.

The 4W market has also seen a structural increase in competition since 2014, as a growing number of automakers are turning their attention to the Indonesian market (arguably the largest 4W market in ASEAN). Indeed, in recent years, automakers have aggressively rolled out new models, set up local factories, and committed to improve after-sales services. Against this backdrop, models that once dominated the market have seen their market positions slip. The Avanza/Xenia, for instance, saw its share of the LMPV market drop from 89% in 2011 to 58% in FY22 (48% in FY21 before the release of the all-new Avanza/Xenia). With competition getting fiercer, a return to previous market share levels seems unlikely.

Substandard capital allocation history

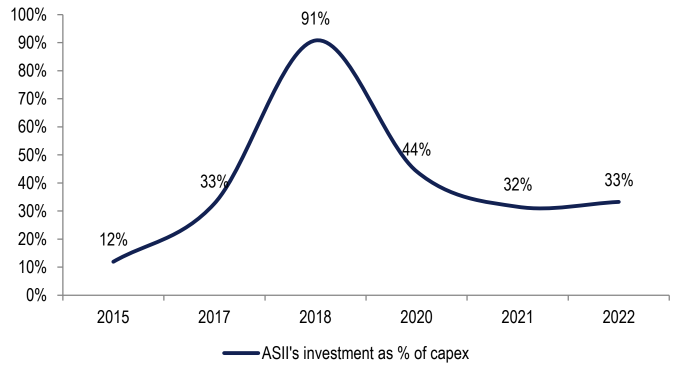
Based on our discussions with ASII, the company plans to continue to diversify and invest in companies that have the potential to generate synergies with its core businesses. Its most recent investment include a joint venture with Hongkong Land through ALI (Astra Land Indonesia) to extend its logistics services and a joint venture with Toyota to provide commercial rental services, which began operations in 4Q22. ASII also recently acquired Bank Jasa Jakarta (in cooperation with WeLab Hong Kong) with a plan to develop a digital bank.

While such diversification may potentially add synergy/value, we believe it is unlikely to become a meaningful share price catalyst, given that: 1) ASII is already one of Indonesia's largest companies in terms of market cap (Rp237tr or c.4.7% of Indonesia's GDP); 2) the company's investment agenda is lacking clarity (with Rp36tr invested across 24 companies and nine sectors over the past seven years, based on our estimates); and 3) it has a track record of acquiring stakes/companies at premium valuations, which inadvertently leads to a poor return profile (partly evidenced by ASII's declining ROE trend, from 23.3% in 2011 to 9.8% in FY21).

Notably, while the infrastructure, logistics, and property businesses accounted for 22.5% of ASII's annual capex spending in FY12-21 on average, the aggregate ROE of these businesses averaged 6.6% in FY12-19 (pre-COVID)—a subpar level considering the amount invested, and likely below the cost of capital. All in all, ROE seems unlikely to return to the >20% level, and we expect ROE to hover around 11-12% in the long run.

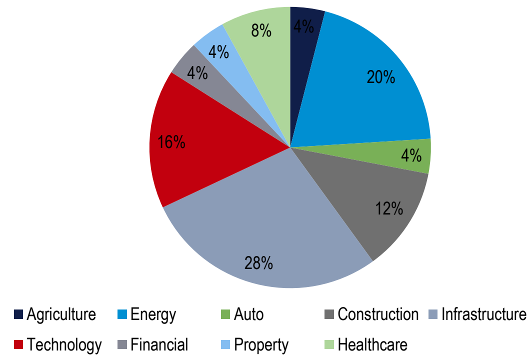
In our view, sentiment toward the company's stock could be improved through: 1) a more transparent and well-communicated capital allocation process; and 2) a higher dividend payout, which would boost value for shareholders. We still expect ASII's payout ratio to be maintained at 40% going forward, which implies a dividend yield of 4.8% at the current valuation.

Fig. 95: ASII's investment as % of capex



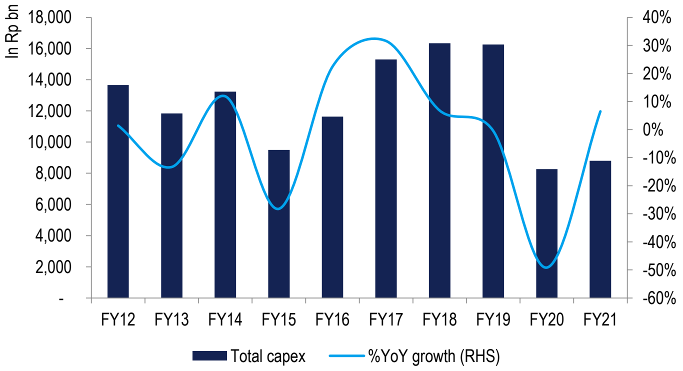
Source: Various news, Company, Indo Premier

Fig. 96: ASII's investment by sector



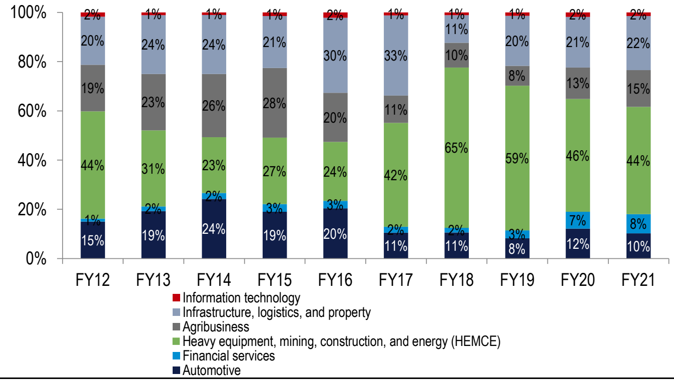
Source: Various news, Company, Indo Premier

Fig. 97: Capex trend should gradually normalize



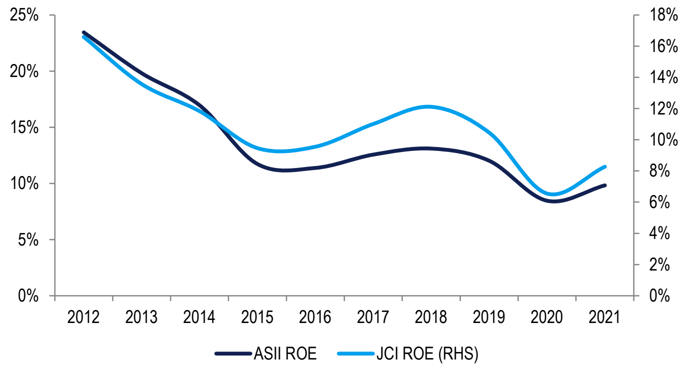
Source: Company, Indo Premier

Fig. 98: Capex breakdown by segments



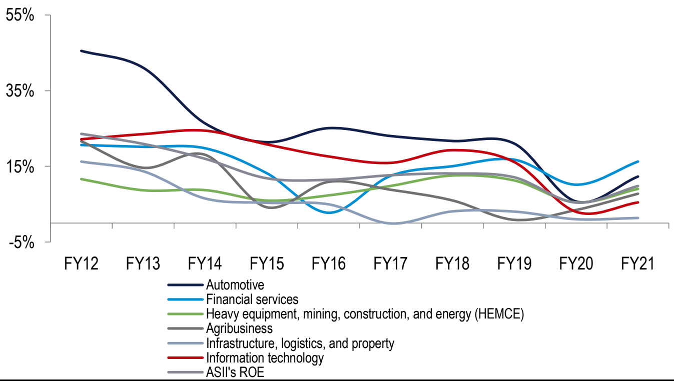
Source: Company, Indo Premier

Fig. 99: ROE overall trend vs. JCI ROE



Source: Company, Indo Premier

Fig. 100: ROE trend based on segments



Source: Company, Indo Premier

Fig. 101: ASII's investments in recent years (non-exhaustive)

Year	Acquired company	Acquirer	Total investment (Rp bn)	Stake	Sector	Description
Investment						
2015	Kreasijaya Adhikarya	AAL	75	50%	Agriculture	Refinery operator in Dumai, Riau w ith a daily production capacity of 2k tonnes of CPO
2015	Sumbaw a Jutaraya	UNTR	99	76%	Energy	A gold mining company
2015	SKF Indonesia	AOP	67	26%	Auto	A purchase of Rp67bn, raising AOP's shareholding to 40%
2015	Acset	UNTR	814	50%	Construction	A general construction company
2015	Trans Marga Jateng	Astra Tol Nusantara	78	25%		Operator of the 73km Semarang-Solo toll road
2017	Trans Marga Jateng	Astra Tol Nusantara	NA	15%	Infrastructure	Operator of the 73km Semarang-Solo toll road
2017	Lintas Marga Sedaya	Astra Tol Nusantara	5,000	100%	Infrastructure	Acquired PT Baskhara Utama Sedaya (BUS) w hich ow ns 45% of the operator of the fully operation 116.8km Cikopo-Palimanan toll road
2017	Bhumi Jati Pow er	UNTR		25%	Energy	Will develop and operate 2 1kMW thermal pow er plants in Central Java
2018	Agncourt Resources	UNTR	14,834	95%	Energy	Martable gold mine in North Sumatra
2019	Jasamarga Surabaya Mojokerto	Astra Tol Nusantara	NA	45%	Infrastructure	Concession holder of Surabaya-Mojokerto toll road
2019	Lintas Marga Sedaya	Astra Tol Nusantara		10%	Infrastructure	Operator of Cikopo-Palimanan (Cipali) toll road, from this acquiistion Astra Infra ow ned 55% of Cipali toll road
2020	Gojek	Astra	3,400	NA	Technology	Indonesia's leading multi-platforms technology group w hich provides various services from transformation and payments to food delivery, logistics and other on-demand services
2020	Acset	UNTR	248	15%	Construction	A general construction company
2020	Jakarta Marga Jaya	Astra Tol Nusantara	NA	100%	Infrastructure	Indirectly create Astra Infra ow ned 35% shares of Marga Lingkar Jakarta
2021	Halodoc	ASII	523		Healthcare	A developer of a digital healthcare platform designed to streamline healthcare access by connecting patients w ith doctors
2021	Mitra Sido Makmur	Astra Land Indonesia		33%	Property	From this acquistion, Astra Land Indonesia became ow n 100% shares of Astra Modern Land
2021	Jasamarga Pandaan Malang	Astra Tol Nusantara	929	49%	Infrastructure	Operator of the 38.5km Pandaan-Malang toll road
2021	Jakarta Marga Jaya	Astra Tol Nusantara	NA	14%	Infrastructure	Indirectly create Astra Infra ow ned 49% shares of Marga Lingkar Jakarta
2021	Acset	UNTR	1,500	17%	Construction	A general construction company
2021	Arkora Hydro	UNTR	177	22%	Energy	A hydropow er plants company w hich currently operating 17.4MW and constructing 10MW hydropow er plants in Java and Sulaw esi
2022	Sayurbox	ASII	203		Technology	Increase its investment in Sayurbox w hich is a platform for agricultural produce delivery that provides fruits and veggies
2022	Mapan	ASII	80		Technology	A developer of payment and loan netw orking platform meant to boost access and income for low -income communities by using technology
2022	Paxel	ASII	216		Technology	A technology-driven delivery service that helps consumers send products on the same day
2022	Medikaloka Hermina	ASII	NA	7%	Healthcare	A company that manages 45 general hospitals in Indonesia as of Oct22
2022	Stargate Mineral Asia & Stargate Pacific Resources	UNTR	4,270	90%	Energy	2 nickel mining company located in Southeast Sulaw esi
2022	Bank Jasa Jakarta	Sedaya Multi Investama	3,877	50%	Financial	Comprehesive banking services
Divestment						
2020	Bank Permata	Bangkok Bank	16,831	45%	Financial	Comprehesive banking services

Source: Various news, Indo Premier

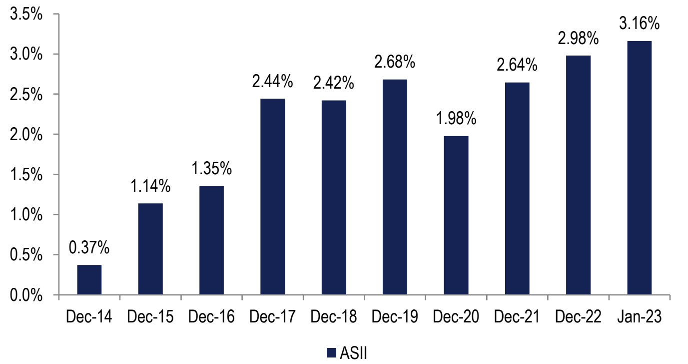
Heightened flow risks

We see potential flow risks for ASII from both an ESG perspective and a top-down index-weighting perspective. In the absence of positive share price catalysts, these issues are likely to limit foreign flows going forward.

First, about 30-35% of ASII's earnings are coal/CPO-related. Given its high exposure to the commodities sector, ASII seems unlikely to become an ESG leader among Indonesian stocks. Indeed, despite being one of Indonesia's largest companies (in terms of market cap), ASII is currently not included in the IDX ESG Leaders Index—an ESG index that was recently introduced by the Indonesian Stock Exchange. The potential for additional ESG investments/initiatives by the company (e.g., UNTR plans to look for more opportunities within the renewable energy sector) represents an upside risk to its ESG score. That said, such initiatives could alter ASII's profitability profile and thus need to be weighed against fundamentals as well.

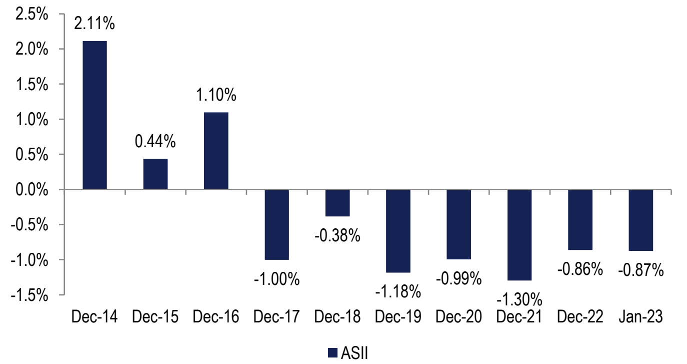
Second, the rising prominence of tech-related companies will likely create persistent flow issues for ASII, as these companies have higher growth rates than ASII and can serve as alternative consumption proxies for Indonesia. Indonesia has seen 17 tech IPOs in the past couple of years, with 4 companies (about a quarter of the total IPOs) exposed to the consumer sector, including Gojek-Tokopedia (GOTO), Bukalapak (BUKA), and Blibli (BELI).

Fig. 102: Local fund weight vs. JCI



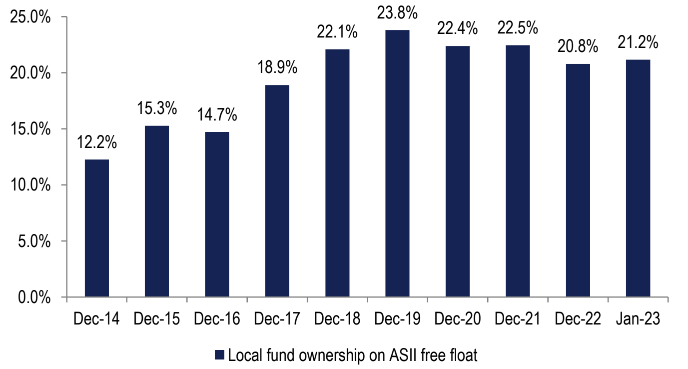
Source: Bloomberg, KSEI, Indo Premier

Fig. 103: Foreign fund weight vs. MSCI



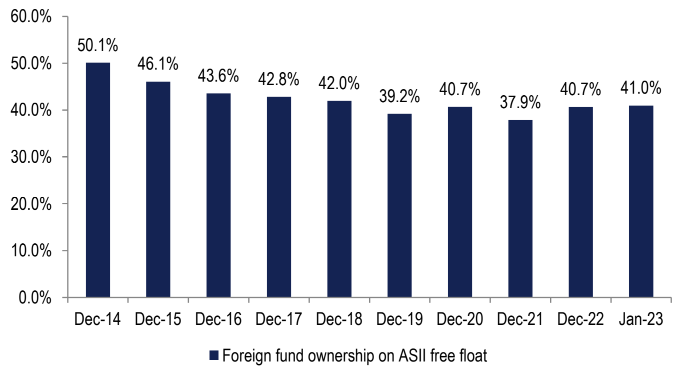
Source: KSEI,MSCI, Indo Premier

Fig. 104: Local fund ownership on ASII free float



Source: Bloomberg, KSEI, Indo Premier

Fig. 105: Foreign fund ownership on ASII free float



Source: KSEI,MSCI, Indo Premier

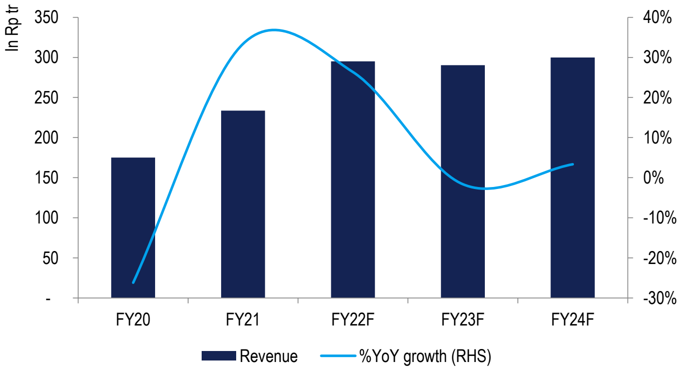
Reinitiate coverage with a HOLD rating and TP of Rp5,900

Bottom-line to decline in FY23F on margins contraction

We expect ASII to deliver -1.6%/+3.3% yoy revenue growth in FY23/24F, respectively. Meanwhile, operating margin should decline from 13.8% in FY22F to 12.8% in FY23F, mainly due to softer performance from UNTR and AALI (who are coming off high-bases due to elevated commodity prices). As such, its bottom-line should also contract by 9.3% in FY23F (before flat in FY24F and returning to positive yoy growth in FY25F onwards).

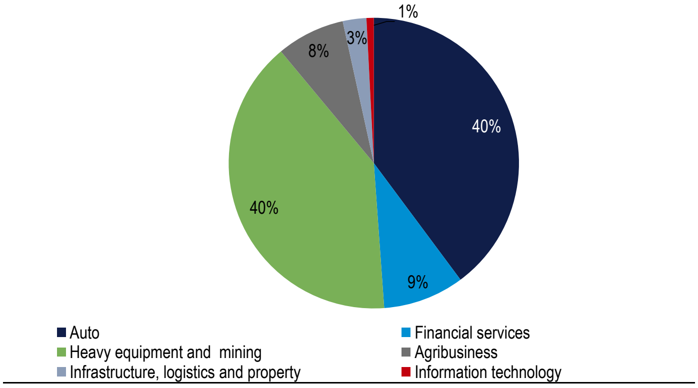
ASII's balance sheet remains healthy with 0.3x gross debt-to-equity and Rp69.6tr of cash as of 3Q22 (hence, close to net cash position). We expect ASII to book Rp25tr of capex (c.9% of revenue) in FY23F, returning to pre-pandemic level. Currently, we still expect its payout ratio to be maintained at 40% going forward, which implies a dividend yield of 4.8% at current valuation.

Fig. 106: Revenue growth trend



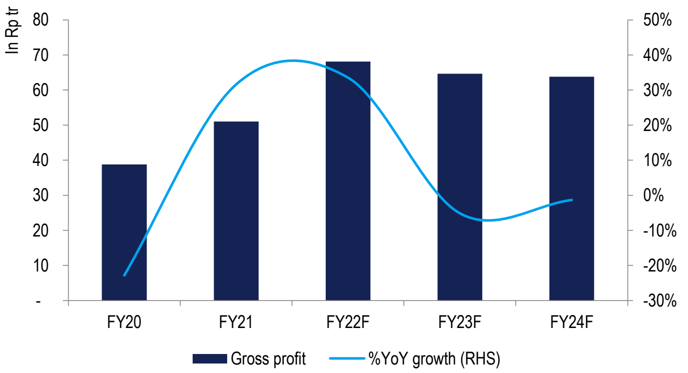
Source: Company, Indo Premier

Fig. 107: Sales breakdown FY22F



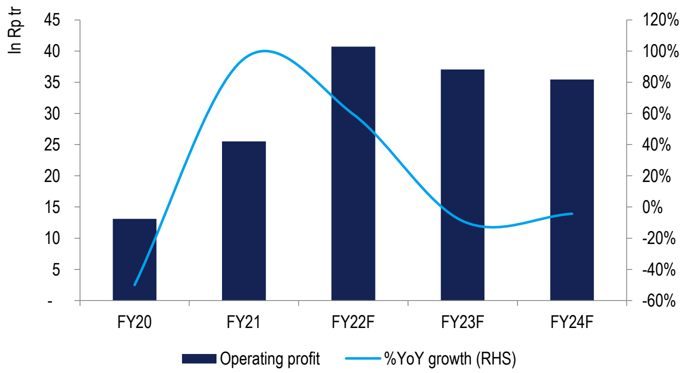
Source: Company, Indo Premier

Fig. 108: Gross profit and margin



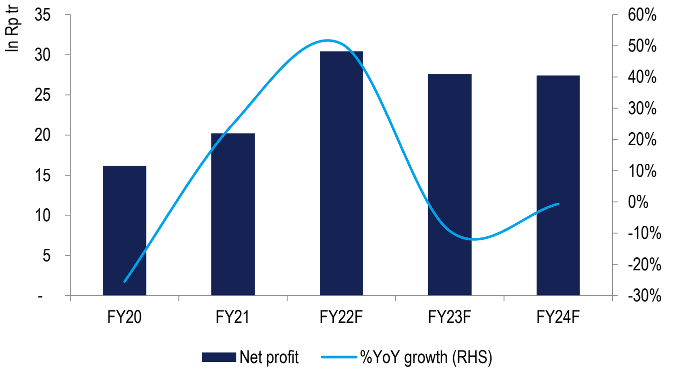
Source: Company, Indo Premier

Fig. 109: Operating profit and margin



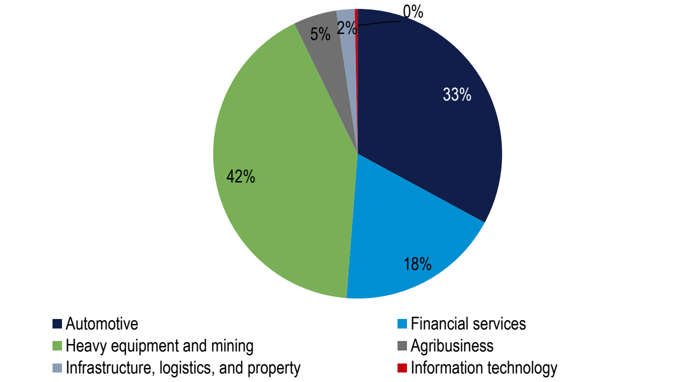
Source: Company, Indo Premier

Fig. 110: Net profit and growth trend



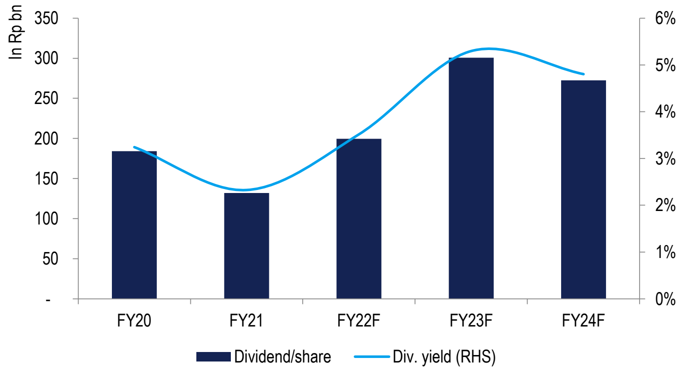
Source: Company, Indo Premier

Fig. 111: Net profit breakdown FY22F



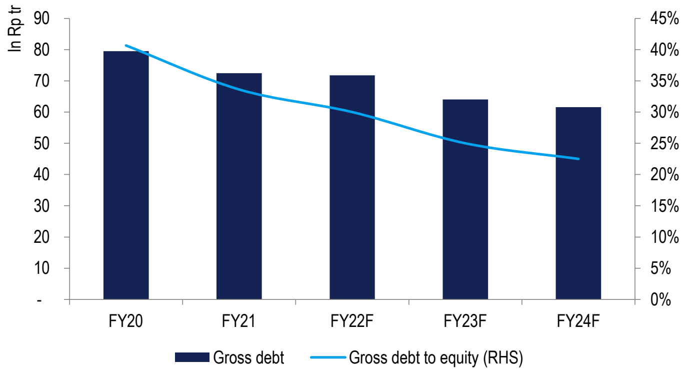
Source: Company, Indo Premier

Fig. 112: Dividend trend



Source: Company, Indo Premier

Fig. 113: Gross debt to equity trend



Source: Company, Indo Premier

Valuation

Reinitiate coverage with a HOLD rating and TP of Rp5,900

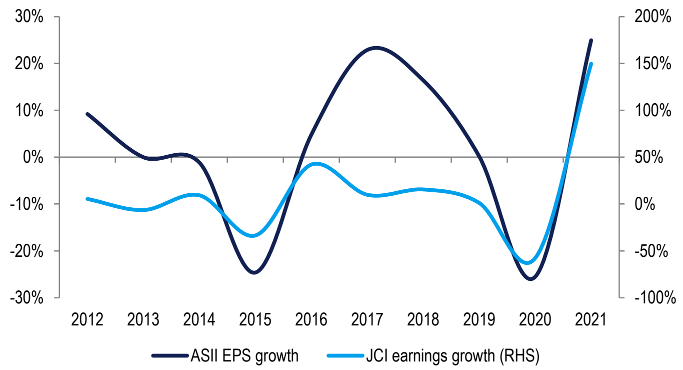
We reinitiate coverage on ASII with a HOLD recommendation and SOTP-based TP of Rp5,900/share, which implies 9x FY23F P/E). Despite the seemingly attractive valuation (currently trading at 8x P/E, -2SD of its 10-yr mean, and at a 43% discount to the JCI vs. average 10yr discount of 20%), we believe that the stock is fully valued, as: 1) the lack of positive near-term catalysts means its share price is unlikely to outperform the JCI this year; and 2) valuation seems unlikely to return to historical levels. Upside/downside risks: 1) higher/lower-than-expected 4W/2W volume growth; 2) higher/lower-than-expected commodity prices; and 3) higher/lower synergies from acquisitions.

Fig. 114: SOTP-based valuation

Segment	Valuation method	Target/implied multiple (x)	ASII's stake	Fair value	Contribution to fair value	Net profit pre-elimination (FY24F)	Contribution to net profit
Automotive dealership	14x P/E (-1SD of Automotive 10-yr mean)	14.0	100.0%	45,258	18.8%	3,233	11.4%
Automotive manufacturing	14x P/E (-1SD of Automotive 10-yr mean)	14.0	47.0%	46,524	19.4%	7,070	24.9%
Components (AUTO IJ)	14x P/E (-1SD of Automotive 10-yr mean)	14.0	80.0%	7,241	3.0%	647	2.3%
Automotive segment				**99,023**	**41.2%**	**10,950**	**38.5%**
Astra Credit Company	1.0x P/BV (K = 14%, LTG 10%, ROE 15%)	1.0	86.0%	11,131	4.6%	1,544	5.4%
Federal International Finance	2.3x P/BV (K = 14%, LTG 10%, ROE 20%)	2.3	100.0%	29,504	12.3%	3,190	11.2%
Astra Buana	1.0x P/BV (K = 14%, LTG 10%, ROE 15%)	1.0	96.0%	8,743	3.6%	1,541	5.4%
Financial services segment				**49,378**	**20.5%**	**6,275**	**22.1%**
United Tractors (UNTR IJ)	SOTP - IndoPremier's TP of Rp29,700/share	6.6	59.5%	65,917	27.4%	10,021	35.2%
Astra Agro Lestari (AALI IJ)	Current market price	41.1	79.7%	12,505	5.2%	305	1.1%
Infrastructure, IT, Property, and others	15x P/E (JCI's current valuation)	15.0	100.0%	13,522	5.6%	901	3.2%
Other segments				**91,944**	**38.3%**	**11,227**	**39.5%**
Total assets value (Rp bn)				**240,344**		**28,452**	
Cash (Rp bn - FY24F)				60,485			
Gross debt (Rp bn - FY24F)				61,603			
Total equity value (Rp bn)				**239,226**			
Shares outstanding (bn shares)				40.5			
Target price (Rp/share)				**5,900**			

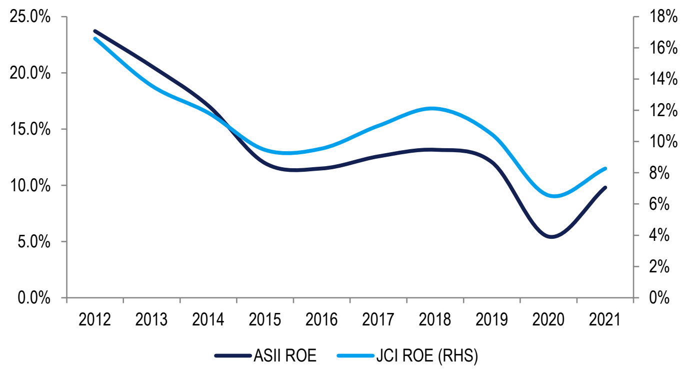
Source: Indo Premier

Fig. 115: ASII's EPS growth vs. JCI



Source: Company, Bloomberg, Indo Premier

Fig. 116: ASII's ROE vs. JCI



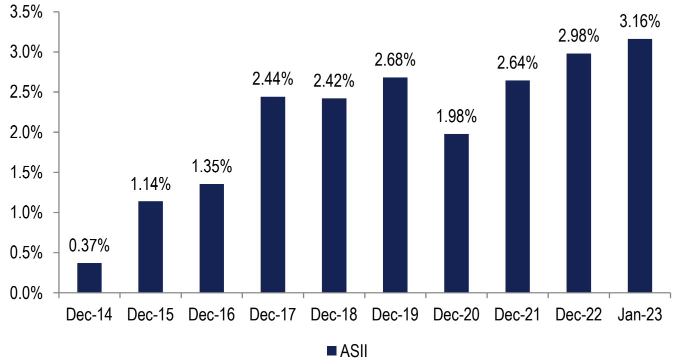
Source: Company, Bloomberg, Indo Premier

Fig. 117: ASII's comps table

	Company name	FY23F ROE (%)	FY23F P/E (x)	FY23F div. yield (%)
Indonesia				
ASII IJ	Astra International	11.1	8.4	5.3
Average		***11.1***	***8.4***	***5.3***
Japan				
7203 JP	Toyota Motor Corp	9.9	9.0	3.2
7267 JP	Honda Motor Co	7.0	6.8	4.2
7202 JP	Isuzu Motors Ltd	13.2	6.9	5.5
7269 JP	Suzuki Motor Corp	11.2	9.8	2.7
7270 JP	Subaru Corporation	11.1	6.9	4.2
7211 JP	Mitsubishi Motors	15.3	5.9	2.6
7261 JP	Mazda Motor Corp	8.5	5.5	4.4
7201 JP	Nissan Motor	6.4	5.9	3.8
Average		***10.3***	***7.1***	***3.8***
Korea				
005380 KS	Hyundai Motor Co	8.6	5.3	4.3
000270 KS	Kia Motors Corp	13.7	4.5	5.2
Average		***11.2***	***4.9***	***4.7***
India				
MSIL IN	Maruti SUZUKI	18.0	23.3	2.4
EIM IN	Eicher Motors	22.6	24.4	1.0
MM IN	Mahindra & Mahindra	12.9	14.3	1.1
BJAUT IN	Bajaj Auto	26.2	16.4	4.3
Average		***19.9***	***19.6***	***2.2***
China				
175 HK	Geely auto	9.2	13.9	2.4
1211 HK	BYD	17.9	28.1	0.3
Average		***13.6***	***21.0***	***1.3***

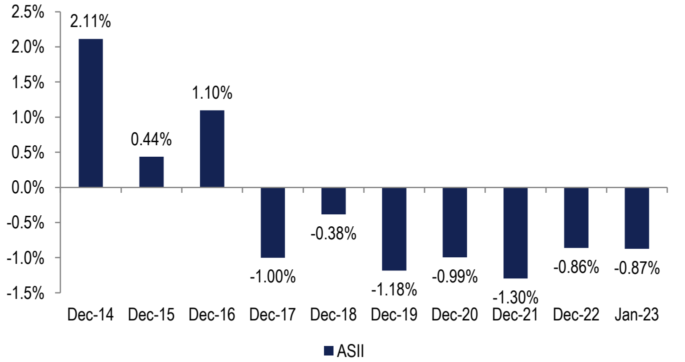
Source: Bloomberg, Company, Indo Premier

Fig. 118: Local fund weight vs. JCI



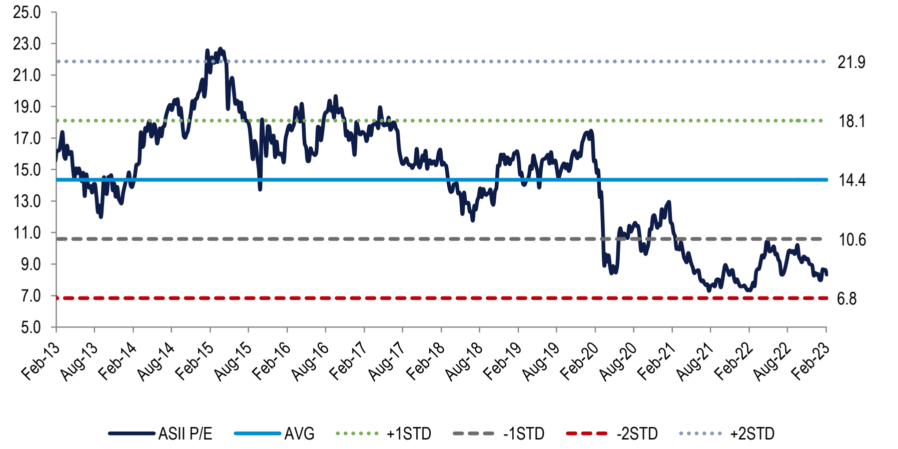
Source: Bloomberg, KSEI, Indo Premier

Fig. 119: Foreign fund weight vs. MSCI



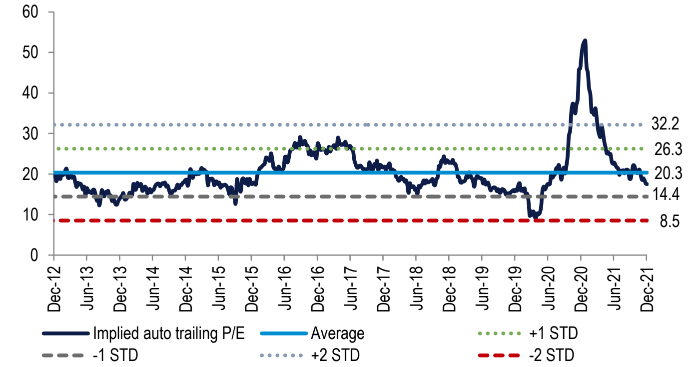
Source: KSEI,MSCI, Indo Premier

Fig. 120: ASII's forward P/E – now trading at 8.4x FY23F P/E vs. 10-year average of 14.4x P/E



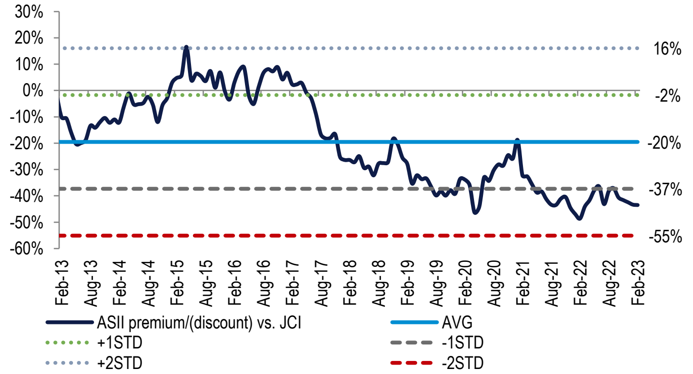
Source: Bloomberg, Company, Indo Premier

Fig. 121: AUTO's trailing P/E – trading at 17.5x FY21 P/E vs. 10-year average of 20.3x P/E



Source: Bloomberg, Company, Indo Premier

Fig. 122: ASII's forward P/E now trades at a 43% discount to JCI's forward P/E vs. 10-year average discount of 20%



Source: Bloomberg, Company, Indo Premier

Income Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net revenue	175,046	233,485	295,008	290,205	299,899
Cost of sales	(136,268)	(182,452)	(226,863)	(225,557)	(236,118)
Gross profit	**38,778**	**51,033**	**68,145**	**64,648**	**63,782**
SG&A Expenses	(25,688)	(25,500)	(27,429)	(27,599)	(28,335)
Operating profit	**13,090**	**25,533**	**40,716**	**37,049**	**35,447**
Net interest	(1,066)	265	249	286	324
Forex gain (loss)	(99)	57	68	29	30
Others	9,816	6,495	8,870	7,541	8,419
Pre-tax income	**21,741**	**32,350**	**49,903**	**44,904**	**44,219**
Income tax	(3,170)	(6,764)	(10,430)	(9,385)	(8,844)
Minority interest	(2,407)	(5,390)	(9,048)	(7,932)	(7,966)
Net income	**16,164**	**20,196**	**30,425**	**27,587**	**27,410**

Balance Sheet (Rp bn)	2020A	2021A	2022F	2023F	2024F
Cash & equivalents	47,553	63,947	61,602	60,139	60,485
Receivables	54,307	60,761	72,742	71,557	73,948
Other current assets	30,448	35,554	39,975	41,343	44,162
Total current assets	**132,308**	**160,262**	**174,319**	**173,039**	**178,596**
Fixed assets	95,128	90,450	87,016	82,737	78,118
Other non-current assets	110,767	116,599	128,259	141,085	155,193
Total non-current assets	**205,895**	**207,049**	**215,275**	**223,821**	**233,311**
Total assets	**338,203**	**367,311**	**389,593**	**396,860**	**411,906**
Payables	16,529	25,149	26,105	25,954	27,170
Other payables	32,071	39,962	38,763	37,600	36,472
Current portion of LT loans	37,136	38,667	35,890	32,004	30,802
Total current liab.	**85,736**	**103,778**	**100,758**	**95,559**	**94,444**
Long term loans	42,345	33,819	35,890	32,004	30,802
Other LT liab.	14,668	14,099	13,676	13,266	12,868
Total liabilities	**142,749**	**151,696**	**150,325**	**140,828**	**138,113**
Equity	6,594	8,253	8,253	8,253	8,253
Retained earnings	149,068	163,800	186,147	201,564	217,939
Minority interest	39,792	43,562	44,869	46,215	47,601
Total SHE + minority int.	**195,454**	**215,615**	**239,269**	**256,032**	**273,793**
Total liabilities & equity	**338,203**	**367,311**	**389,593**	**396,860**	**411,906**

Source: Company, Indo Premier

Cash Flow Statement (Rp bn)	2020A	2021A	2022F	2023F	2024F
Net profit	16,164	20,196	30,425	27,587	27,410
Depr. & amortization	15,057	14,148	12,220	11,913	12,295
Changes in working capital	10,363	4,951	(16,644)	(1,497)	(5,123)
Others	15,384	(1,011)	(3,035)	(5,304)	(6,541)
Cash flow from operating	**56,968**	**38,284**	**22,966**	**32,699**	**28,041**
Capital expenditure	(11,045)	(9,470)	(8,786)	(7,634)	(7,676)
Others	-	-	-	-	-
Cash flow from investing	**(11,045)**	**(9,470)**	**(8,786)**	**(7,634)**	**(7,676)**
Loans	(12,820)	(6,995)	(705)	(7,773)	(2,405)
Equity	(2,297)	39	(7,741)	(6,586)	(6,579)
Dividends	(7,449)	(5,344)	(8,078)	(12,170)	(11,035)
Others	-	-	-	-	-
Cash flow from financing	**(22,566)**	**(12,300)**	**(16,525)**	**(26,528)**	**(20,019)**
Changes in cash	**23,223**	**16,394**	**(2,345)**	**(1,463)**	**346**

Key Ratios	2020A	2021A	2022F	2023F	2024F
Gross margin	22.2%	21.9%	23.1%	22.3%	21.3%
Operating margin	7.5%	10.9%	13.8%	12.8%	11.8%
Pre-tax margin	12.4%	13.9%	16.9%	15.5%	14.7%
Net margin	9.2%	8.6%	10.3%	9.5%	9.1%
ROA	3.0%	5.7%	8.0%	7.0%	6.8%
ROE	5.4%	9.8%	13.3%	11.1%	10.3%
ROIC	4.3%	8.9%	12.8%	10.8%	10.2%
Acct. receivables TO (days)	130	90	90	90	90
Acct. payables - other TO (days)	62	42	42	42	42
Gross debt-to-equity (x)	0.4	0.3	0.3	0.3	0.2
Net debt-to-equity (x)	0.2	0.0	0.0	0.0	0.0
Interest coverage (x)	3.8	11.2	18.9	16.5	16.4

Source: Company, Indo Premier

INVESTMENT RATINGS

BUY	:	Expected total return of 10% or more within a 12-month period
HOLD	:	Expected total return between -10% and 10% within a 12-month period
SELL	:	Expected total return of -10% or worse within a 12-month period

ANALYSTS CERTIFICATION

The views expressed in this research report accurately reflect the analyst’s personal views about any and all of the subject securities or issuers; and no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in the report.